Recommended Update of "ABC" Trusts

Effective 9/1/2000

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If this flyer was mailed to you, it is for one of two reasons: either this law firm has drafted an ABC Trust for you prior to 9/1/2000; or, you may have an ABC Trust not drafted by this firm which may not incorporate a recent change to federal tax law that enhances the capabilities of your trust.

IRS Revenue Ruling 2000-2 has made it clear that a Marital Trust (the "C Trust" portion of an ABC Trust), can be made the beneficiary of an IRA and also qualify for QTIP treatment if certain conditions are met in the drafting of the ABC Trust.

Let's look at a common scenario of an ABC Trust holding only community property assets. At the death of the first spouse, the surviving spouse's half of the trust is funded to the A Trust and is completely controlled by the surviving spouse. The deceased spouse's half of the ABC Trust is funded first to the B Trust up to the federal estate tax exemption (hereafter "exemption") amount, and anything remaining to the C Trust (as opposed to the A Trust in the case of an AB Trust). The assets funded to the B Trust are sheltered by the deceased spouse's exemption, and the assets funded to the C Trust are "QTIP"d, thereby *postponing federal estate tax until the death of the surviving spouse.*

The benefit of making a C Trust the beneficiary of an IRA instead of the surviving spouse is that the original IRA owner can control its ultimate distribution *instead* of the surviving spouse. For example, usually the surviving spouse is made the primary beneficiary of an IRA. At the IRA owner's death, the surviving spouse usually elects to rollover the IRA to the surviving spouse's name, and then has the right to name his or her own beneficiaries, perhaps persons other than those chosen by the original IRA owner.

If instead, the C Trust is made the beneficiary of the deceased spouse's portion of an IRA as shown in **Figure 1**, then the surviving spouse can have certain rights to income and principal during his or her lifetime, **but the remainder would pass to beneficiaries chosen by the original IRA owner through the C Trust, which trust at this point is irrevocable.**

Since the C Trust assets are added to the surviving spouse's taxable estate at the death of the surviving spouse, this strategy of naming the C Trust as an IRA beneficiary is not an estate tax reduction strategy, but is a *distribution* strategy.

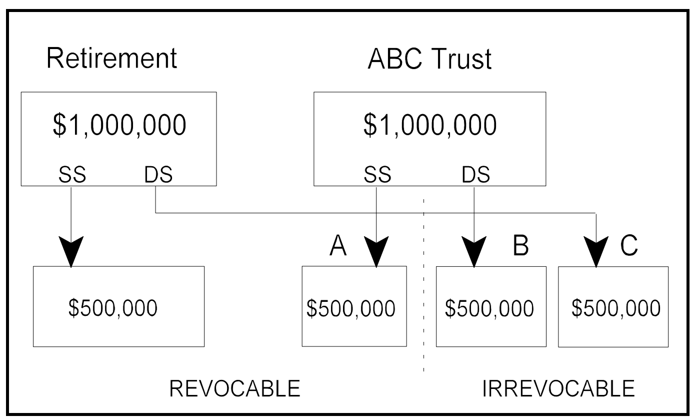

Figure 1

In order to make the above planning possible, an ABC Trust should be drafted to conform to IRS Revenue Ruling 2000-2. We recommend that all persons having an ABC Trust have their trust amended to conform to this new change in the law. This update does not require a completely new trust, only an *amendment* to your existing trust.

See the reverse side for further instructions.

-------------------------------------- please detach and return in enclosed envelope--

The Law Firm of Richard O. Barndt recommends that all ABC Trusts drafted by this firm before 9/1/2000 be updated as well as all ABC Trusts not drafted by this firm which do not incorporate this recent tax law change. Updates are offered for a fee of **$250.00** for ABC Trusts drafted by this firm and **$350.00** for ABC Trusts drafted by other firms and can be obtained during your usual three-year review, however, we recommend that the update be done as soon as reasonably possible.

____ Please call us to schedule an appointment to obtain our ABC Trust update.

____ We elect to decline the update to our ABC Trust. We hereby release the Law Firm of Richard O. Barndt for any consequences resulting in substantial part from not obtaining this update.

A non-response will be deemed a declination and release without further notice.

Dated: ___________

______________________________________ ___________________________________

Signature Signature