BERNSTEIN

Complex Planning at the Intersection of Income and Transfer Taxes

Don't Bring a Spork to a Knife Fight

Thomas J. Pauloski, J.D.

National Managing Director–Wealth Planning and Analysis Group

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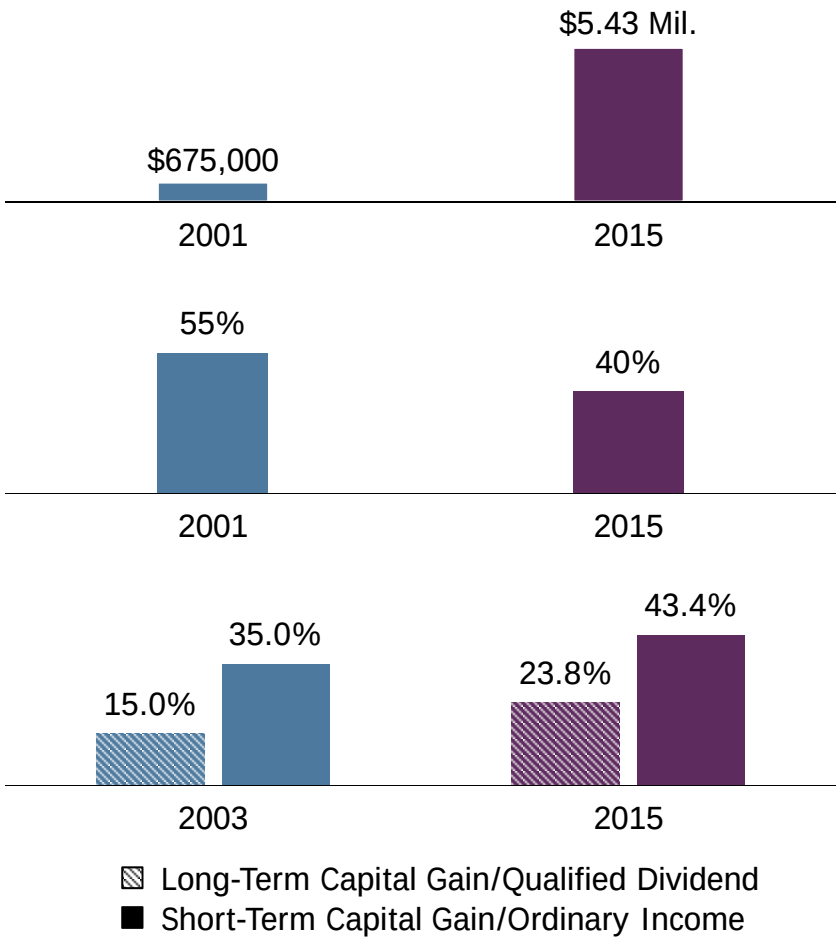
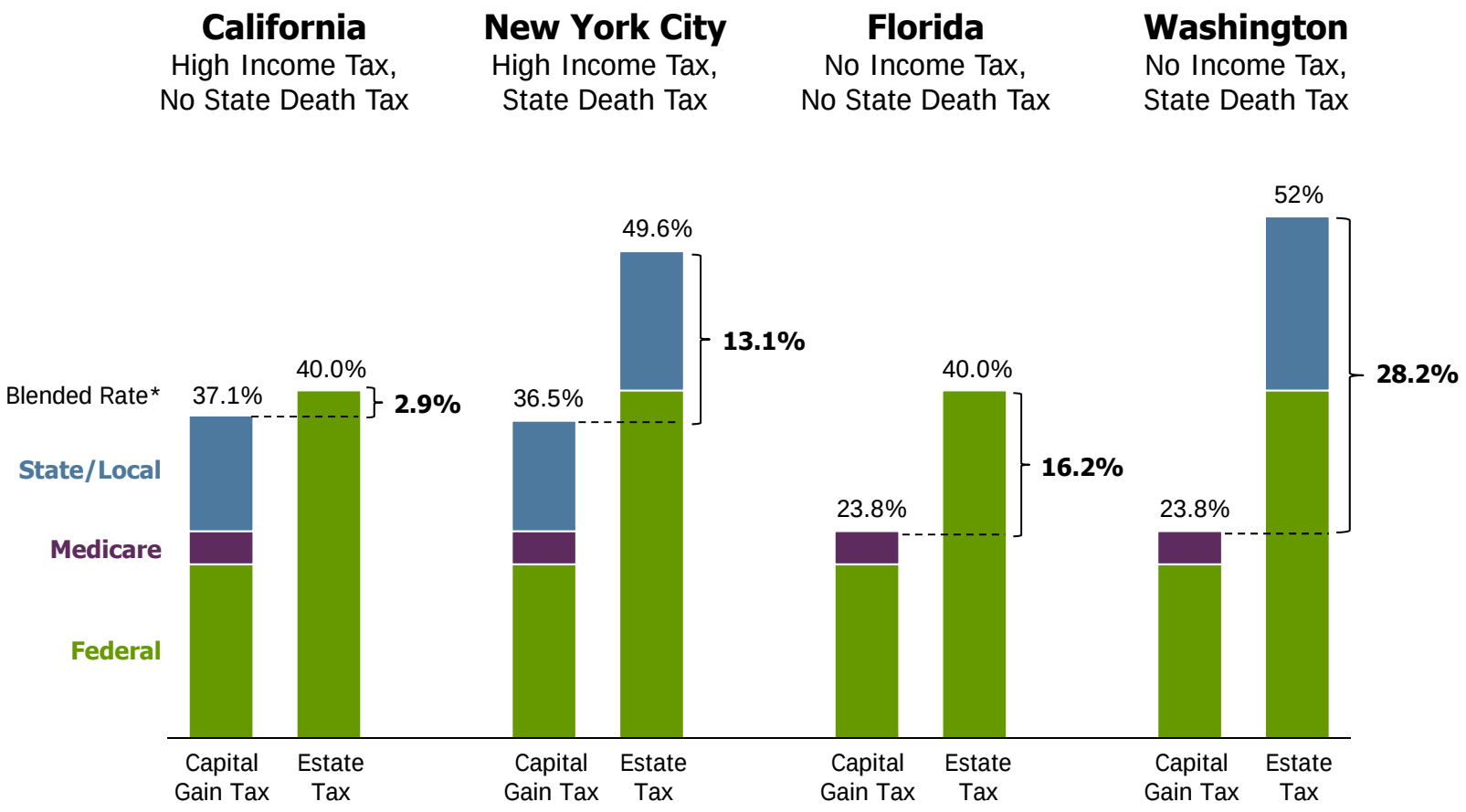
Federal Wealth Transfer and Income Taxes: Then and Now

- Applicable exclusion amount
- Transfer tax rate
- Income tax rates*



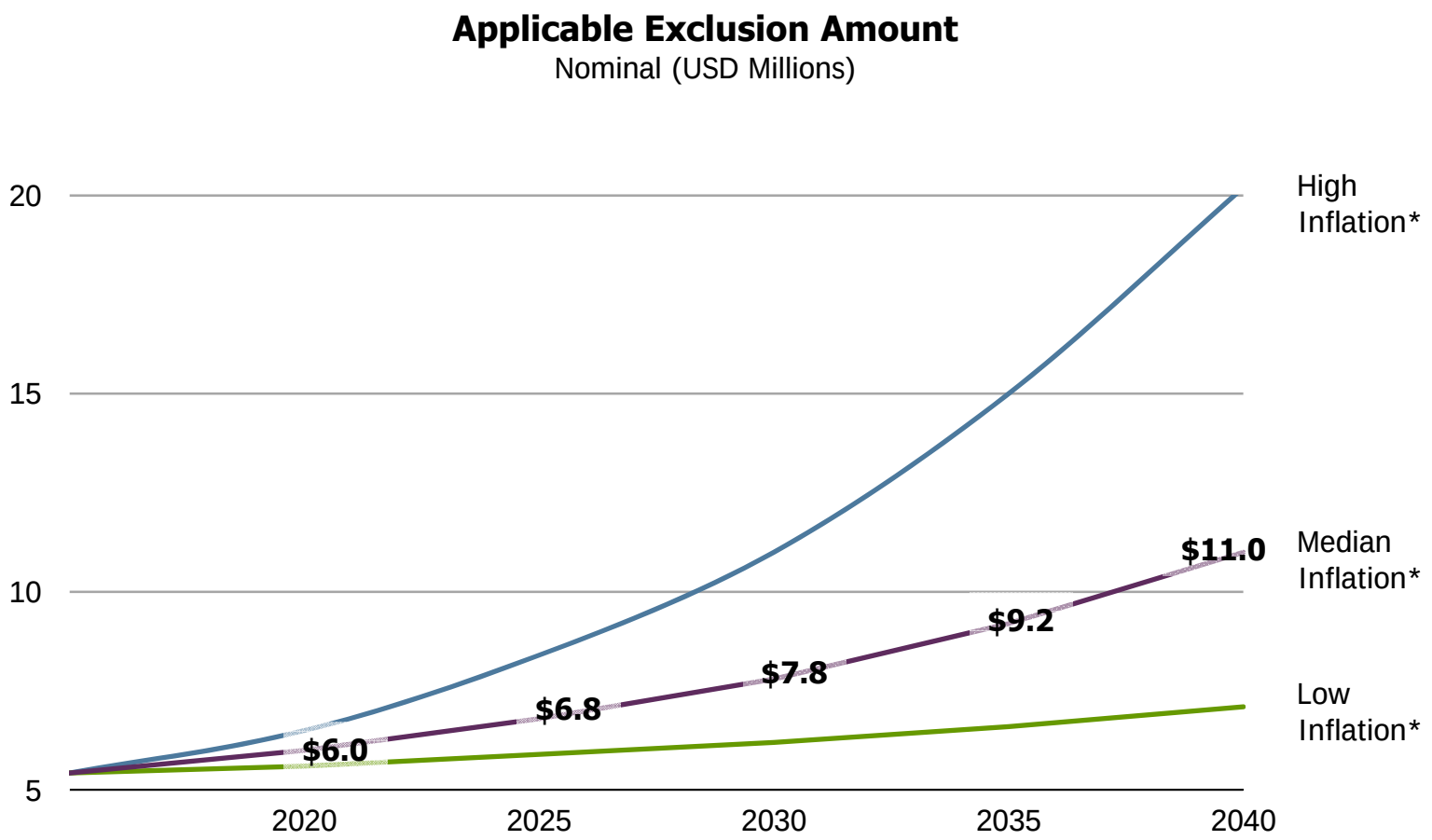
*The top income tax rates in 2015 include the 3.8% Medicare surtax on net investment income. The top ordinary income/short-term gain rate and qualified dividend/long-term gain rate in 2015 are 39.6% and 20%, respectively.
Sources: Internal Revenue Service (IRS) and AB

"Gap" Between Estate and Capital Gain Tax Rates Varies by State



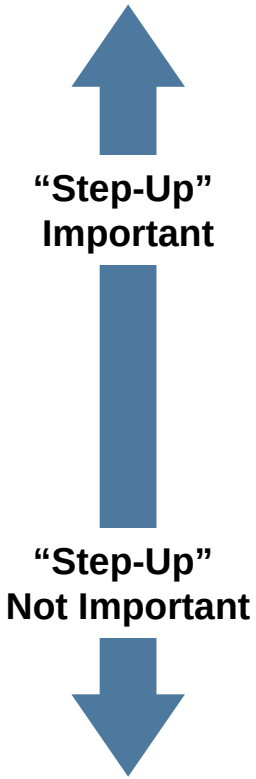
*Based on Health Care and Education Reconciliation Act of 2010 and the American Taxpayer Relief Act of 2012. Rates represent Bernstein's estimate of the top marginal tax, federal and state income, capital gains and estate tax brackets. Blended rates assume the taxpayers in New York City and California are in AMT; the 3.8% Medicare surtax on net investment income is included in its entirety, and is not adjusted to reflect any offset for state or local income taxes paid. Bernstein is not a legal, tax or estate advisor. Investors should consult these professionals as appropriate before making any decisions.
Numbers may not sum due to rounding.
Source: IRS and AB

Projected Effect of Inflation on Applicable Exclusion



*Based on increases in inflation, rounded to the nearest $10,000. Applicable exclusion amount shown is for an individual, based upon 10th ("High"), 50th ("Median") and 90th ("Low") percentile outcomes for the inflation-adjusted applicable exclusion amount.
Based on Bernstein's estimates of the range of returns for the applicable capital markets. Data do not represent past performance and are not a promise of actual results or a range of future results. See Notes on Wealth Forecasting System at the end of this presentation for additional information.

Some Assets Will Benefit from "Step-Up," Others May Not

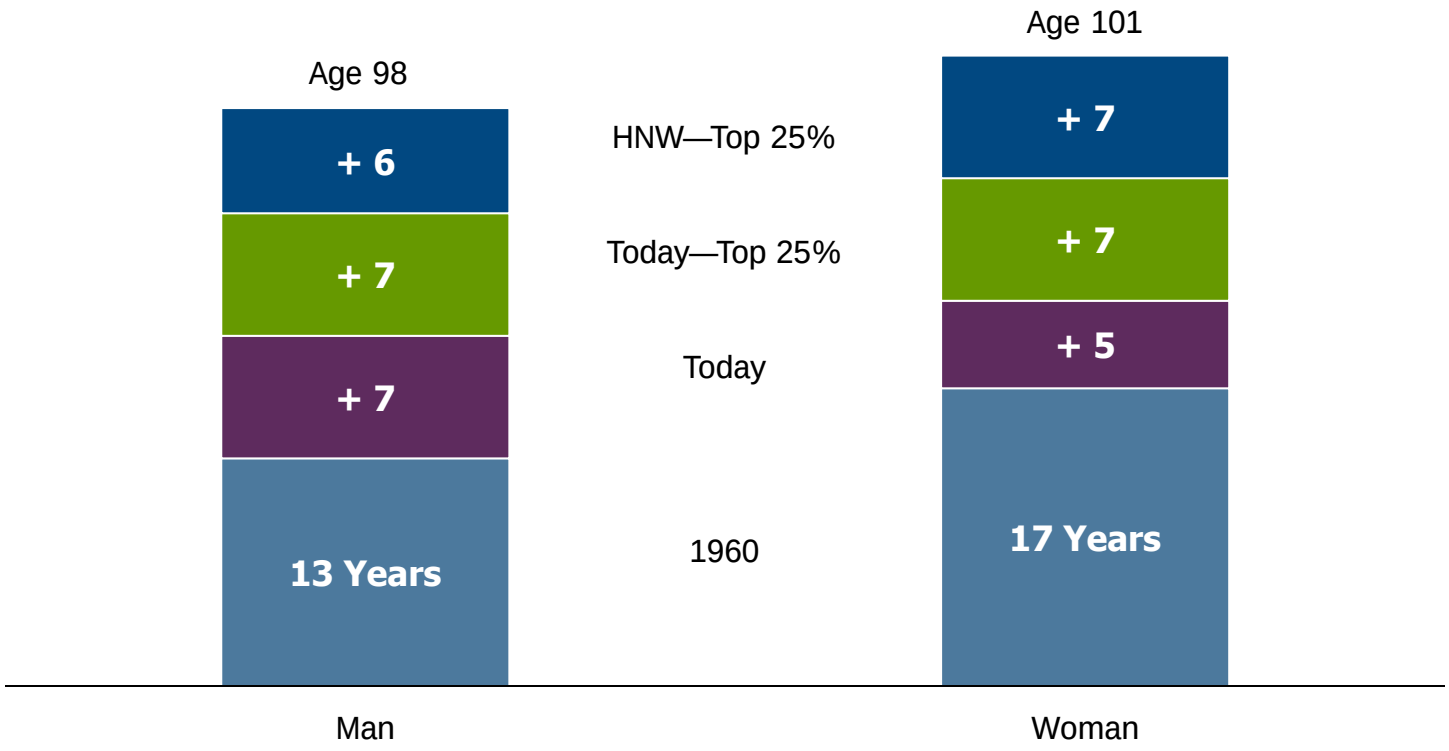


Asset Type	Tax Characteristic
Creator-Owned Copyrights, Trademarks, Patents and Artwork	Ordinary → Long-Term
"Negative-Basis" Commercial Real Property LPs	Ordinary and Long-Term
Artwork, Gold and Other "Collectibles"	28% Long-Term
Low-Basis Stock	20% Long-Term
Roth IRA Assets	Tax Free
High-Basis Stock	Minimal Gain
Fixed Income	Typically Minimal Gain
Cash	Basis = Face Value
Stocks at a Loss	Capital Loss Erased
Variable Annuities	Partially IRD*
Traditional IRA and Qualified Plan Assets	100% IRD*

*Income in Respect of Descendent
Source: AB

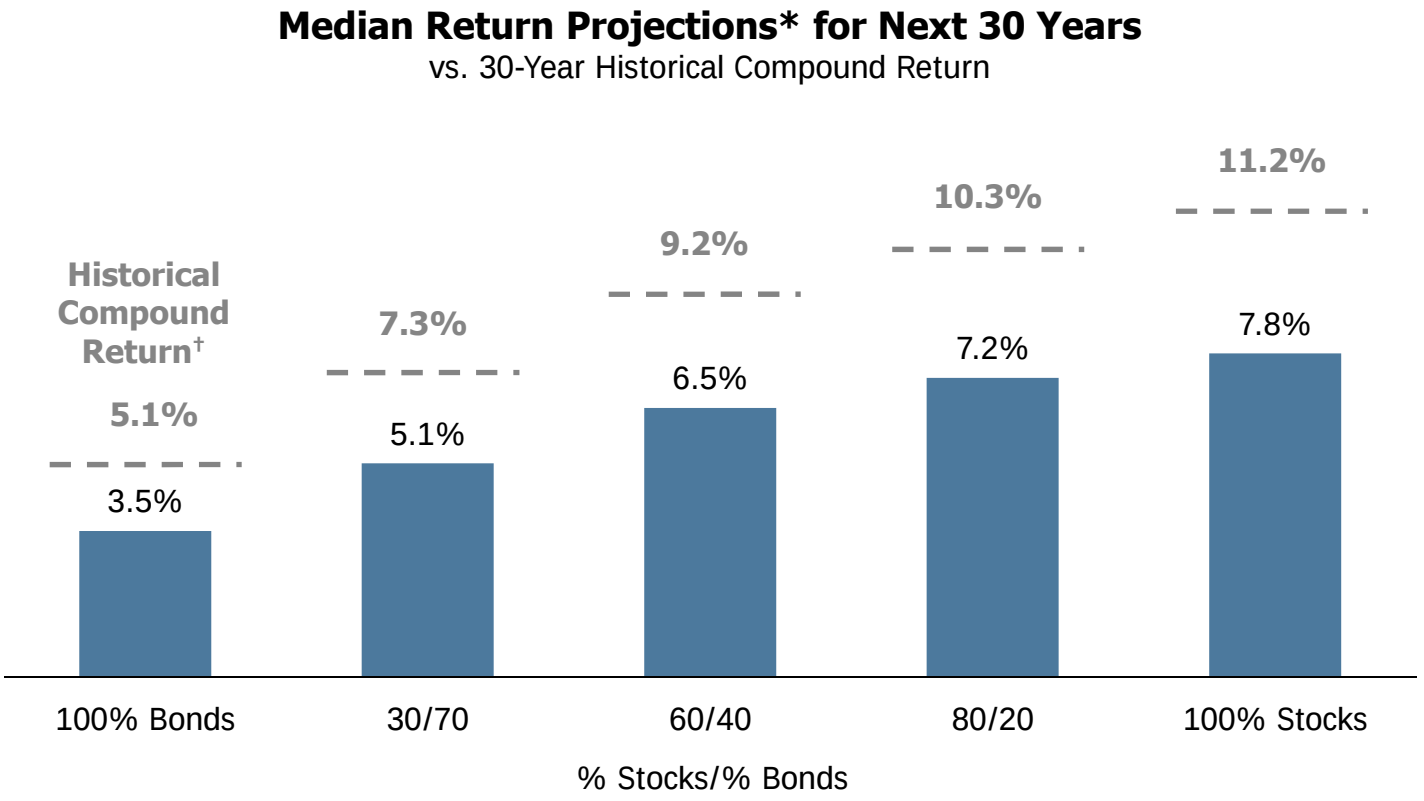
People Are Living Longer

Average Life Expectancy for a 65-Year-Old*



Sources: Social Security Administration, Society of Actuaries, and M Financial Group

Future Returns Are Likely to Be Much Lower



Based on Bernstein's estimates of the range of returns for the applicable capital markets over the periods analyzed. Data do not represent past performance and are not a promise of future results or a range of future results. See Appendix, Notes on Wealth Forecasting System, for details.
*Projected pretax 30-year compound annual growth rate. Stocks (or "global equities") are modeled as 21% US diversified, 21% US value, 21% US growth, 7% US small/mid-cap, 22.5% developed international and 7.5% emerging-market stocks, and bonds are modeled as intermediate-term diversified municipal bonds. Reflects Bernstein's estimates and the capital-markets conditions as of December 31, 2013.
†Historical compound return calculated from January 1, 1984, through December 31, 2013 with equities represented as follows: 70% S&P 500 and 30% MSCI EAFE from 1984 through 1987, and 70% S&P 500, 25% MSCI EAFE and 5% MSCI EM thereafter; bonds represented by the Lipper Short/Intermediate Municipal Bond Fund Average.
Sources: Lipper, MSCI, Standard & Poor's and AB

Basic "ATRA-Math": Consider Likely Post-Transfer Appreciation, Not Just Gap Between Effective Estate and Capital Gain Tax Rates

Is anticipated $[A_{pt} \times T_e] > [T_{cg} \times \{(V - B) + A_{pt}\}]$?;

where:

A_{pt} = Post-transfer appreciation;
T_e = Transferor's effective estate tax rate
T_{cg} = Transferee's effective capital gain tax rate
V = Current asset value
B = Current adjusted basis

Expected timing of transaction and transferor's death are also key variables

Source: AB

Wealth Transfer Framework: Key Questions Post-ATRA

Lifestyle Spending

Personal Reserve

Core Capital

- How likely is it that core assets needed to support lifestyle will be ***less than*** the inflation-indexed applicable exclusion over time?
- Does the inflation-indexed exclusion provide an opportunity to reserve more for long-term care?

Extra Spending

Opportunistic

Children Grandchildren

Charity

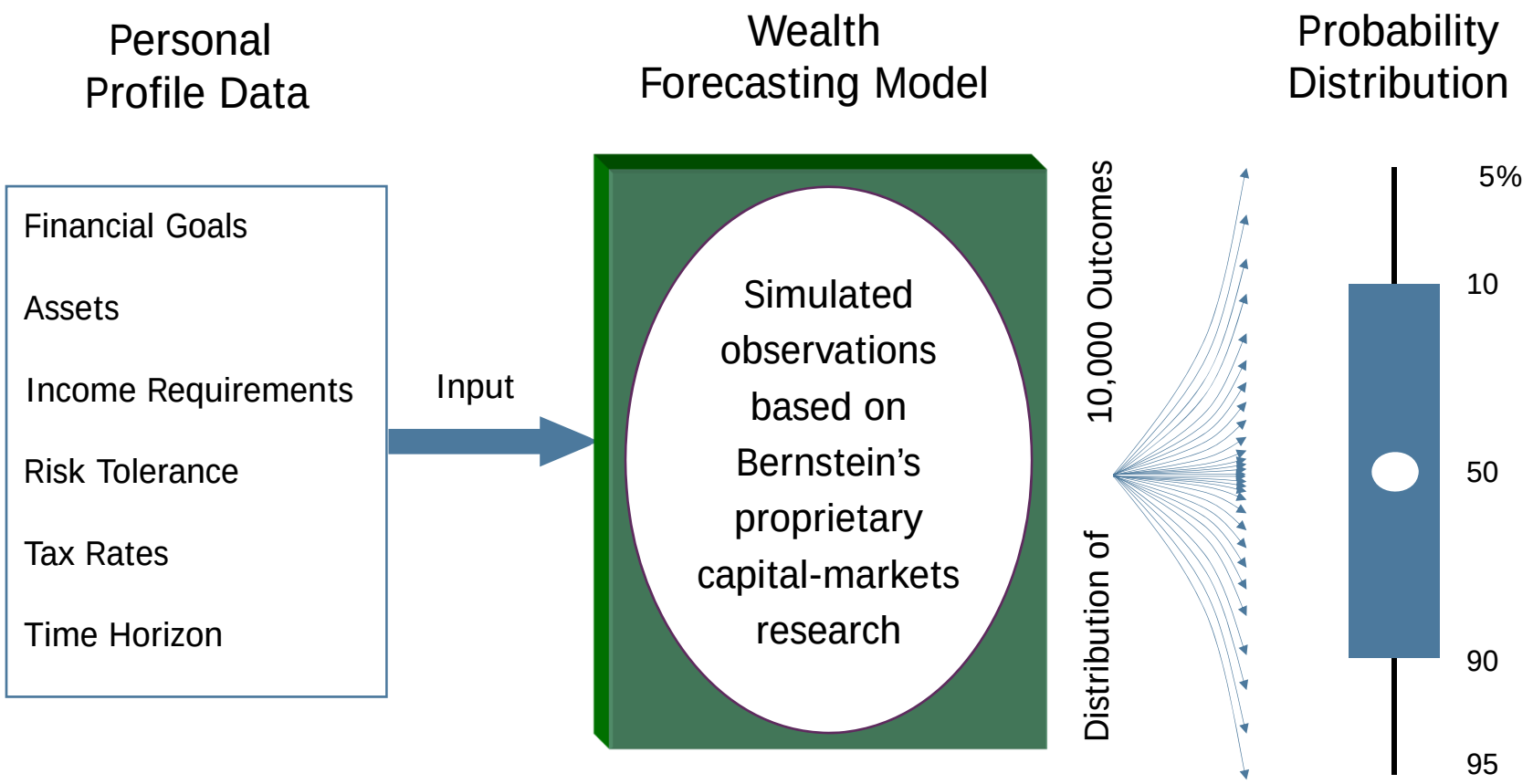
Surplus Capital

- How much (if any) can stay in the estate without estate tax exposure?
- What are the ***income*** tax characteristics of capital earmarked for wealth transfer?
- What are the income tax consequences to the beneficiary upon liquidation?
- Can grantor trusts be used to facilitate periodic repositioning of assets, based on potential for growth ***and*** favorable income tax characteristics?

Source: AB

Analytical Model*

Quantifying the Trade-Offs



*See Appendix, Notes on Wealth Forecasting System, for details.
Source: AB

Case Study: Funding GRATs with Discounted Assets

Assumptions

- Single 72-year-old male investor; resident of Illinois
- For the most part, living off his $11 million liquid portfolio
  - $7 million of stocks, $4 million of bonds*
  - Spending $285,000 annually (indexed for inflation)
  - By our reckoning, investor has at least $3 million of discretionary (surplus) capital that can be used to fund wealth transfer initiatives
- Professional advisor recommends
  - Contribute $3 million of stocks to the capital of a newly established family limited liability company (FLLC)
  - Contribute FLLC units to six-year GRAT
  - Apply 25% valuation discount to compute annuity payout requirements*

Key planning questions:
(1) Is the discount "necessary"?
(2) Is a six-year annuity term advisable?

*"Stocks" mean globally diversified stocks; "bonds" mean intermediate-term municipal bonds. "Globally diversified" means 21% US value, 21% US growth, 21% US diversified, 7% US small- and mid-cap, 22.5% developed international, and 7.5% emerging markets.
Source: AB

Some Observations* About GRAT Funding

- The longer the annuity term
  - The greater the probability of "success" (i.e., positive remainder value); but
  - Mortality risk increases; and
  - Poor early-year investment returns can sink the strategy
- A GRAT may be funded largely from core capital because contributed assets are returned to the grantor, with interest (the Section 7520 rate), over the course of the annuity term, subject to
  - Investment risk; and
  - Retained income tax liability on transferred assets—without corresponding investment return
- When a GRAT is funded with discounted assets (e.g., FLLC units)
  - Annuities paid in-kind ordinarily should be subject to the same discount applied to GRAT funding ("discount in, discount out"), and thus will require annual revaluation
  - Systematic dismantling of the FLLC's portfolio to accommodate annual annuity payments with nondiscounted assets raises important questions
    - What is the business purpose of this FLLC?
    - If the trustee of the GRAT (presumably a nonvoting member of the FLLC) can redeem units at net asset value when and as needed, what is the justification for the lack-of-control discount?

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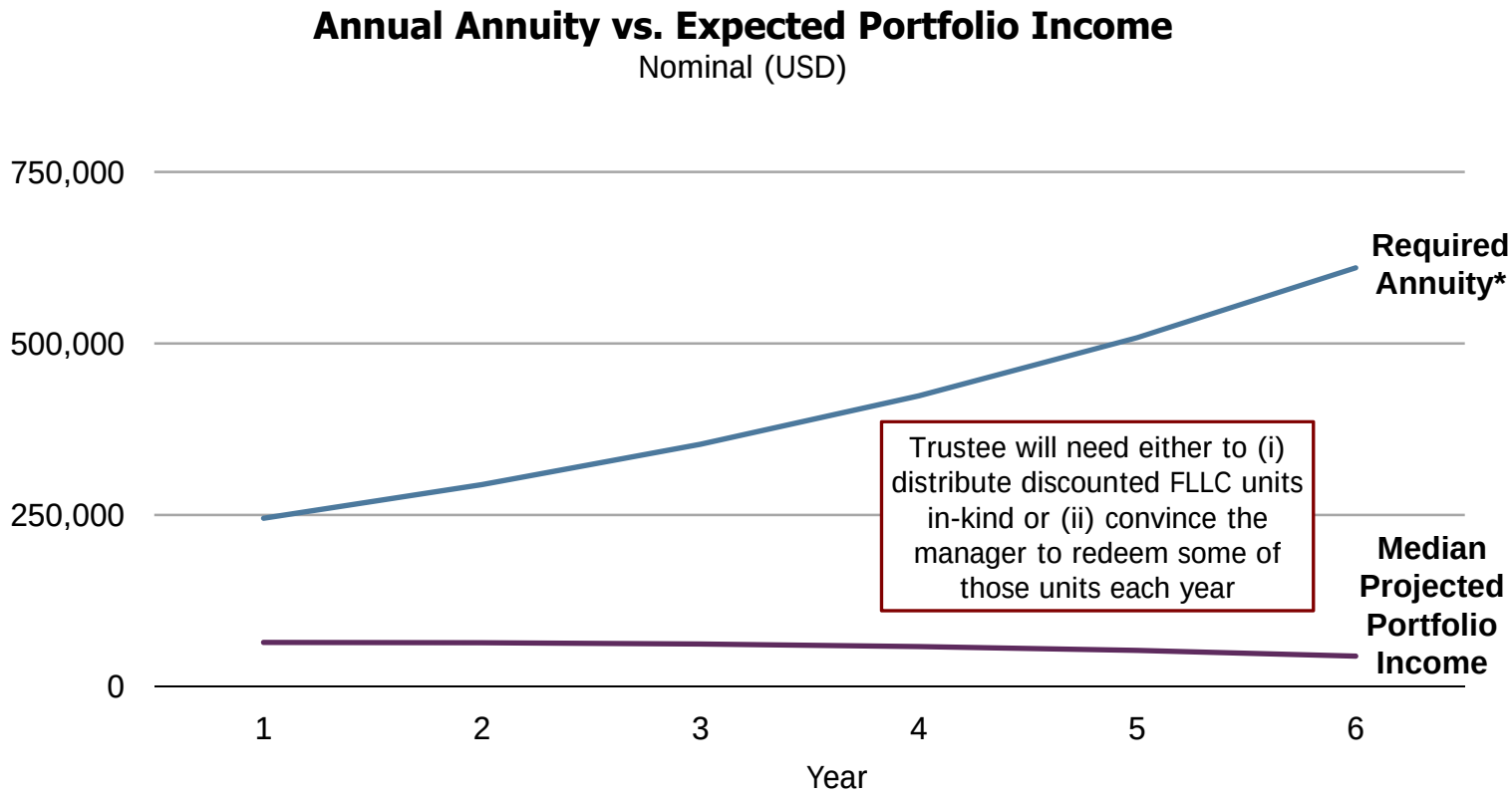
Source: AB

Portfolio Income Will Not Be Sufficient to Satisfy "Discounted" GRAT Annuity Payments



Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next six years. Data do not represent past performance and are not a promise of actual or range of future results. See Appendix, Notes on Wealth Forecasting System, for details.
*Annual annuity payments computed assuming 2.2% Section 7520 rate, 20% annual increase. Bernstein does not provide tax, legal, or accounting advice. You should independently verify all conclusions before implementing any strategy on your own behalf or on behalf of your client.
Source: AB

Alternative to Valuation Discount: "Overstuff" the GRAT*

- This investor has $7 million of diversified stocks
  - Professional advisor recommended that only $3 million be contributed to FLLC's capital
  - What if investor avoided the FLLC entirely and instead funded the six-year GRAT directly with all $7 million of his stocks?
- Potential benefits
  - Reduced risk of audit
  - The GRAT is "borrowing" investor's capital
    - $7 million, plus interest, will be returned to investor, subject to investment risk and grantor trust income taxes
    - GRAT can be "zeroed-out," so investor's risk profile does not change by sliding stocks off his balance sheet
- Potential downsides
  - Valuation discount provides a "cushion" against poor investment performance; GRAT beneficiaries lose that if investor overstuffs
  - Need to monitor investor's portfolio to ensure lifestyle is not affected—during the annuity term and afterwards

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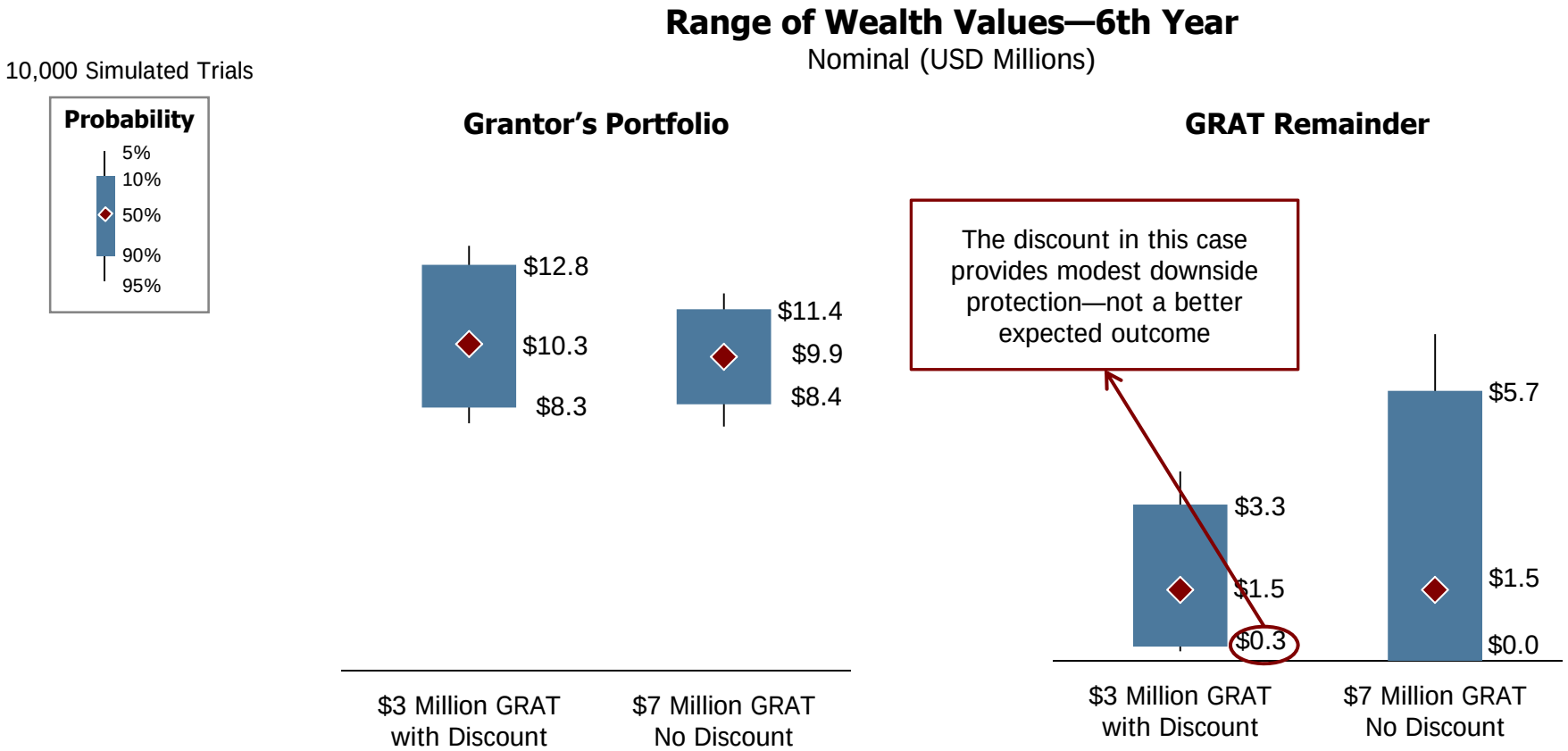
Source: AB

"Overstuffing" a GRAT Strategy Can Replicate the Outcome of a Valuation Discount–Without the Audit Risk



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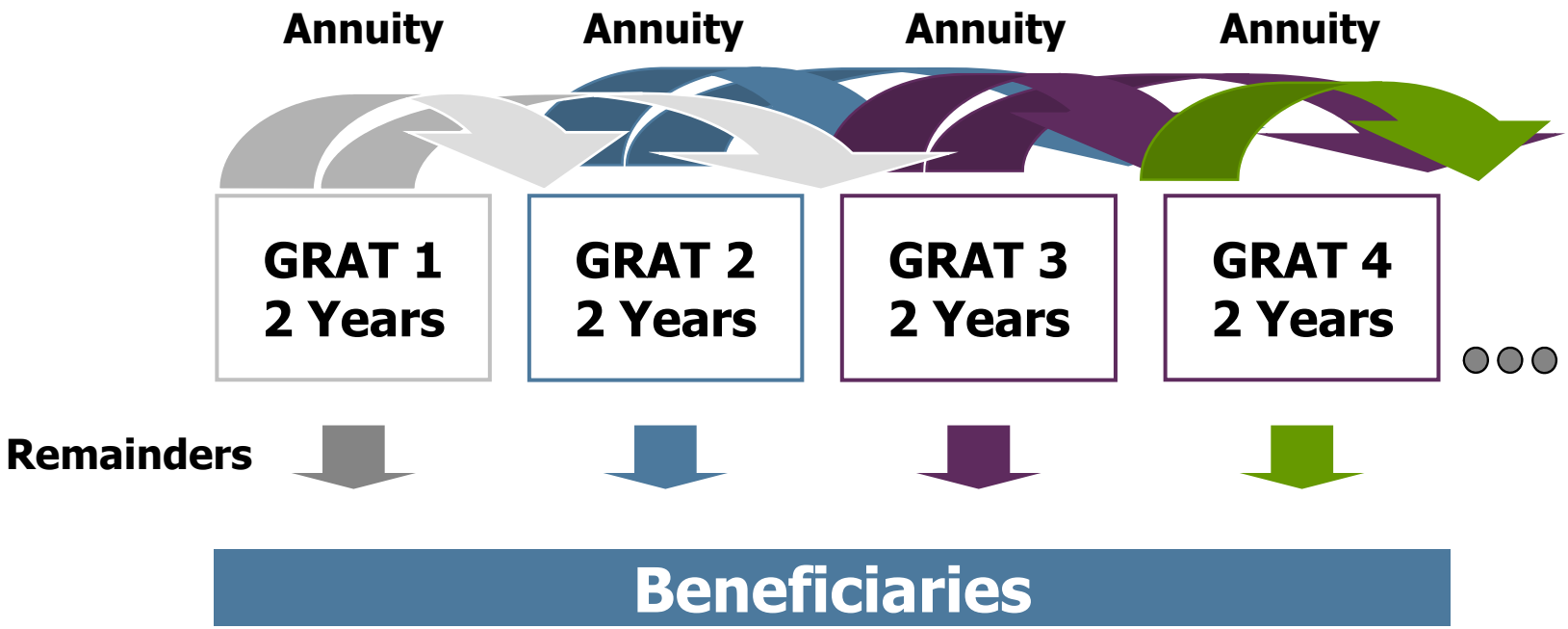
Source: AB

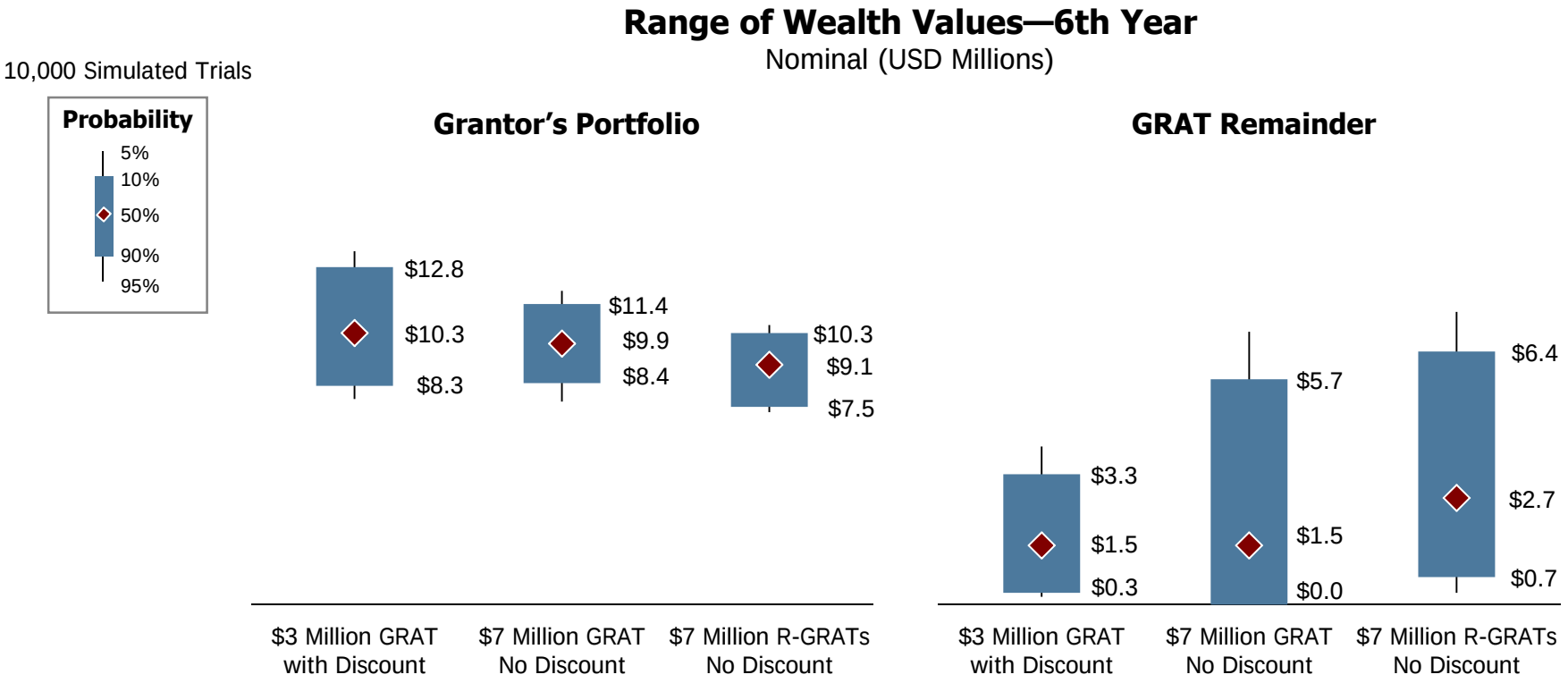
Further Enhancement: Hedge Mortality and Economic Risks by Using Short-Term Rolling GRATs

- Grantor contributes assets to initial two-year trust
- Each annuity is re-contributed to new two-year GRAT for duration of strategy
- Any appreciation above Section 7520 rate passes free of transfer tax to beneficiaries*



*Assumes each GRAT is zeroed-out. Bernstein does not provide tax, legal, or accounting advice. You should independently verify all conclusions before implementing any strategy on your own behalf or on behalf of your client.
Source: AB

Rolling GRATs Can Enhance Expected Outcome, and Hedge Mortality and Down-Market Risks



But consider:

Legislative threat to continuing viability of short-term GRATs

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Source: AB

Case Study: *Post*-Transaction Planning—Is Income Accumulation Always the Best Strategy?

Revisit Traditional Thinking

Traditional Advice

- Don't distribute from a dynasty trust
- Allow assets to grow over time
- Avoid estate tax for as many generations as possible

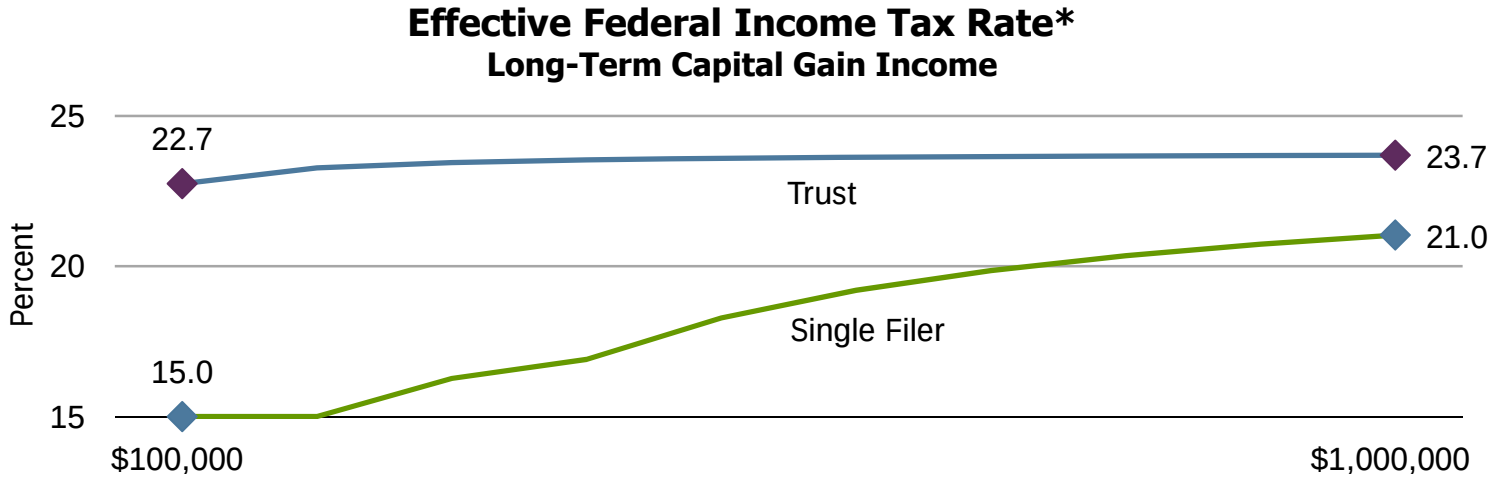
New Paradigm

- Could remainder beneficiaries be better off if trust made distributions, avoiding higher tax rates within trust?
- A number of factors may now change the equation:
  - Beneficiary income tax status/situation
  - Trust income tax situation
  - Number of beneficiaries
  - Time horizon

Source: AB

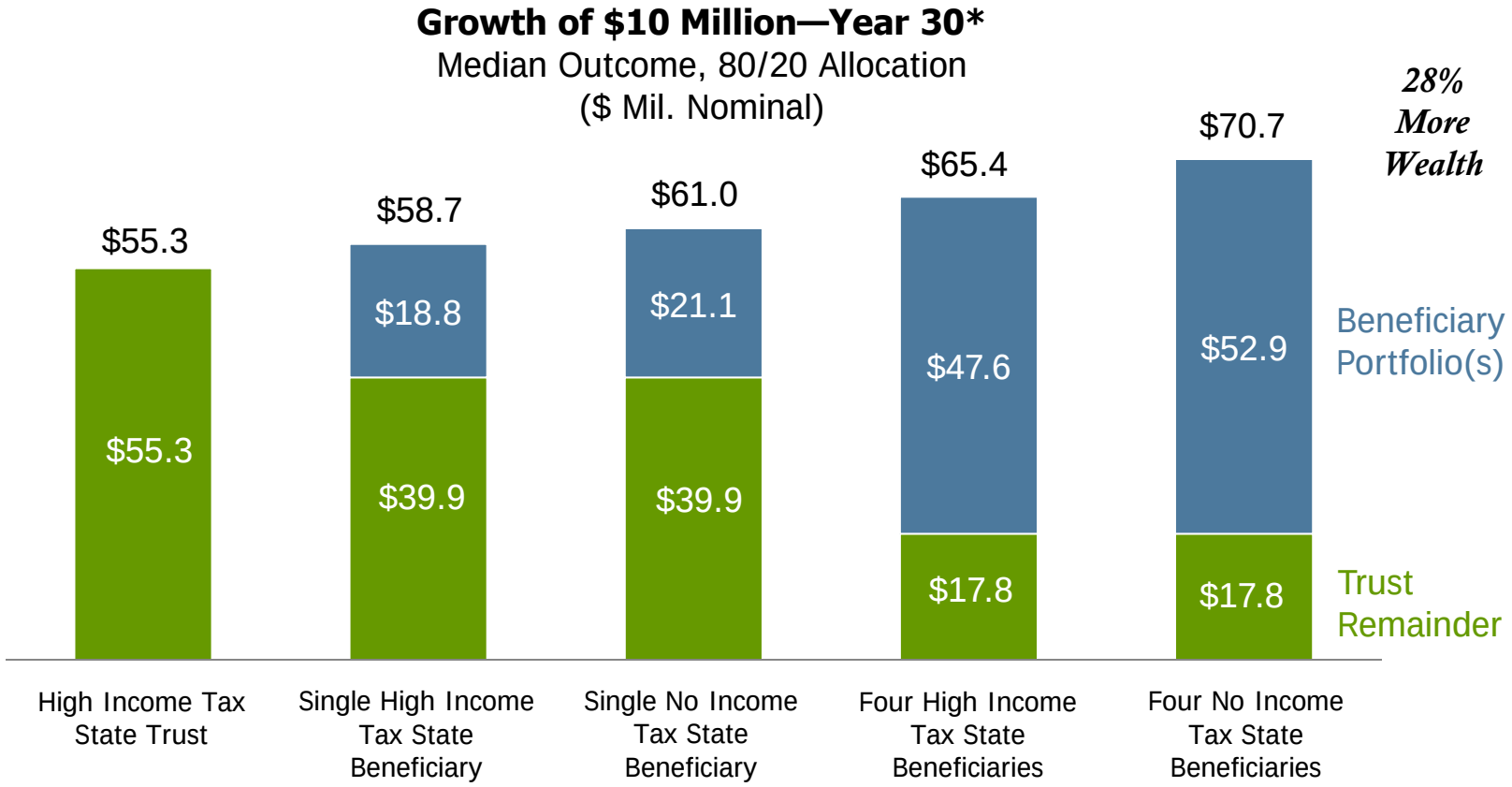
Larger Tax Difference Between Individuals and Trusts Post-ATRA

Income Type	Tax Rate	Adjusted Gross Income Threshold	
		Single Filer	Trust
Short-Term Gains and Ordinary Income	39.6%	$406,751	$12,150
Long-Term Gains and Qualified Dividends	20.0%	$406,751	$12,150
Medicare Surtax on Net Investment Income	3.8%	$200,000	$12,150



As of January 2014.
*Effective federal income tax rate is computed assuming the only source of income is the long-term capital gain amount indicated on the x-axis.
Source: IRS and AB

In the Right Case, Disciplined Income-Shifting Can Build Substantial Additional Wealth Over Time



*80/20 modeled as 80% stocks and 20% bonds. Stocks are modeled as 63% US large-cap, 7% US small-/mid-cap, 22.5% developed international and 7.5% emerging markets stocks. Bonds are modeled as intermediate-term municipals.

**Assumptions: trust distributes pretax annual income and capital gains up to $250,000 per year (nominal) to each beneficiary; beneficiary invests after-tax distributions in 80/20 portfolio. It further assumes each beneficiary has no outside income or other assets and is not subject to estate tax in the future.

Based on Bernstein's estimates of the range of returns for the applicable capital markets over the periods analyzed. See Notes on Wealth Forecasting System at the end of this presentation for further details. **Data does not represent past performance and are not a promise of actual future results or a range of future results**.

Source: AB

Basis-Shifting Strategies in the Current Environment

Four Ways to Get Basis

- Hold non-IRD asset until death (effective, but uncertain timing and not particularly pleasant)
- Receive an allocation of taxable income on a Schedule K-1 from a pass-through entity without a corresponding distribution (unpleasant if no offsetting tax losses)
- Incur debt
- Benefit from unique basis-shifting strategies that may be available Subchapter K

Sources: Paul S. Lee, "Venn Diagrams: The Intersection of Estate & Income Tax (Planning in the ATRA-Math)," 48th Annual Heckerling Institute on Estate Planning and AB. Bernstein is not a legal, tax or estate advisor. Investors should consult these professionals as appropriate before making any decisions.

Lifetime Estate Planning Strategies to Enhance Basis

- Retain assets until death rather than transfer them during life
- Establish a lifetime qualified terminable interest property (QTIP) marital trust for the benefit of the "poor" spouse (effective only to the extent funded at least one year prior to that spouse's death)
- Establish a statutory community property trust in Alaska or Tennessee (an alternative to the controversial joint exempt step-up trust or "JEST")
- Convert a traditional individual retirement account (IRA) to a Roth IRA
- Acquire life insurance and maintain that policy until death
- Reduce or eliminate valuation discounts for entities taxed as a partnership
- Incur mortgage debt and use the borrowed funds to engage in lifetime wealth transfer strategies—but ensure that the debt will be deductible as an administration expense under Section 2053

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Lifetime Subchapter K Strategies to Enhance Basis

- Plan ahead—to avoid the seven-year income attribution rules under IRC 704(c)(1)(B) and 737
- Reduce or eliminate valuation discounts
- Keep marketable securities segregated in a separate partnership
- As a general rule, use "homogenized," rather than specialized, partnerships at inception
- When basis-shifting is warranted, use "vertical slice" planning to isolate assets in a separate partnership to enhance the effect of the intended basis shift
- As a general rule, keep the original partnership free of a Section 754 election—confine those elections to "sliced-off" partnerships to promote specific, opportunistic basis planning
- Prior to an older partner's death, shift partnership debt to the younger partners (e.g., convert recourse debt as to G1 into nonrecourse debt by having the G2 partners indemnify G1)

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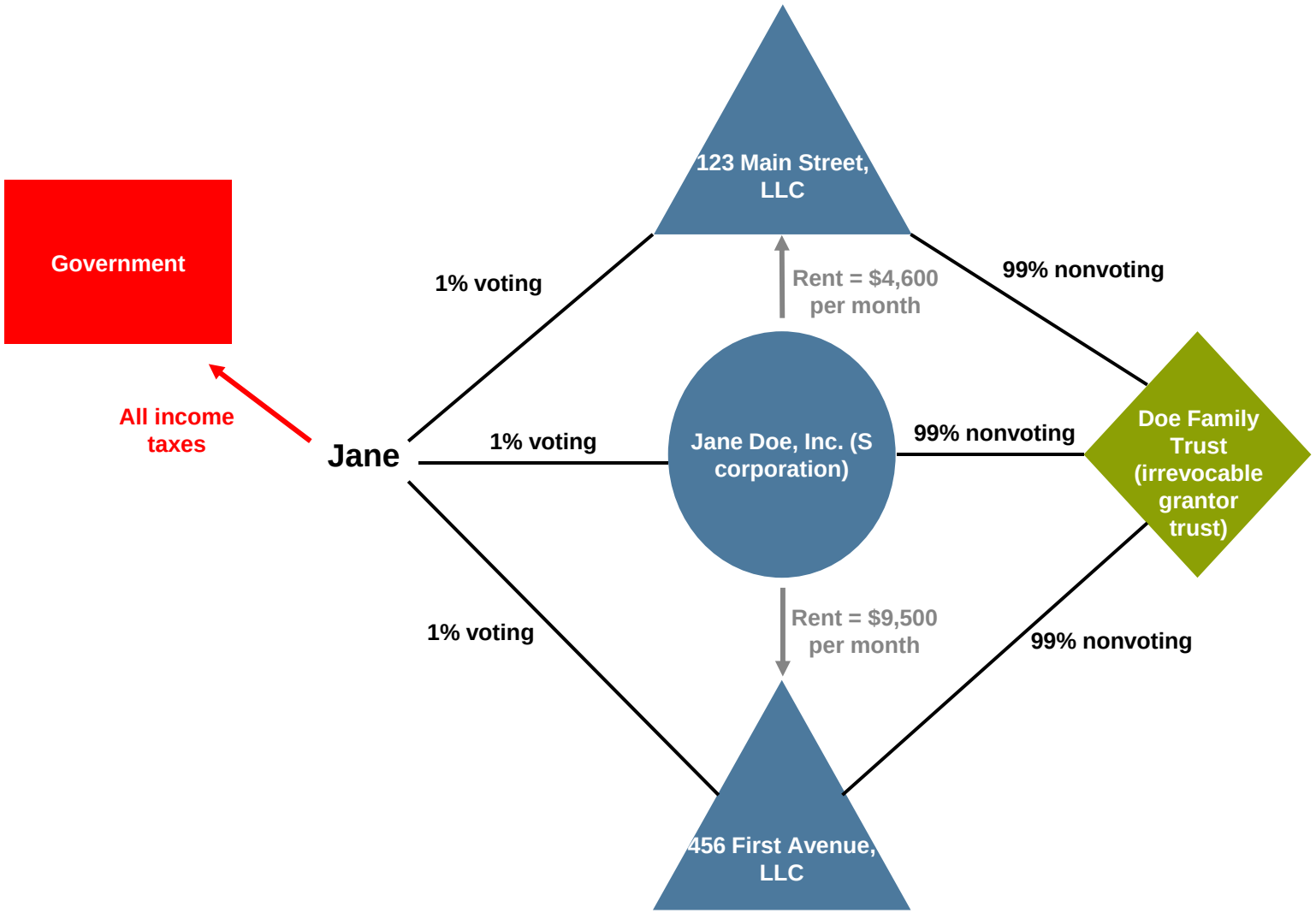
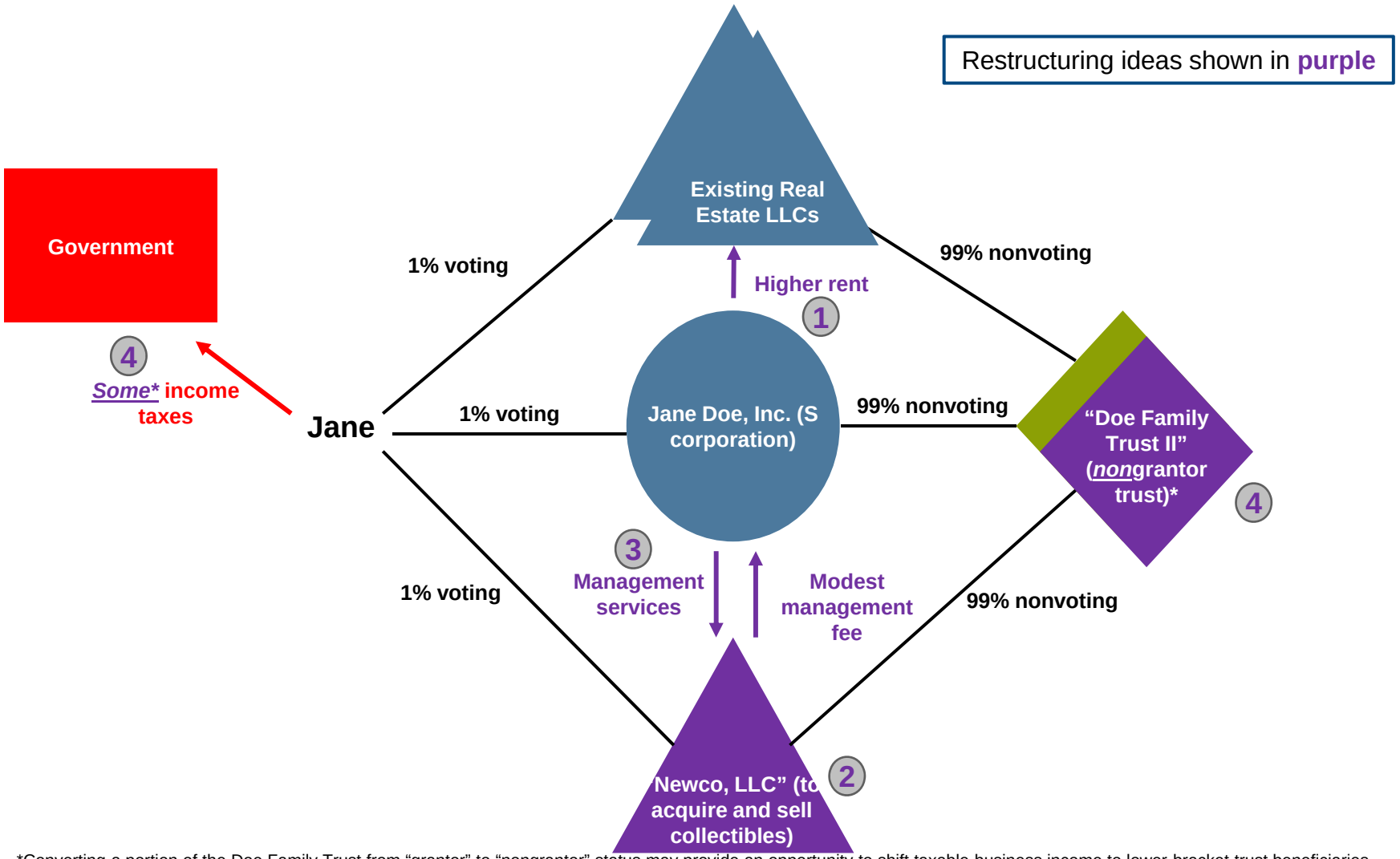
Case Study: Current Business Structure



Source: AB Bernstein

Case Study: Summary of Ideas for Future Discussion



*Converting a portion of the Doe Family Trust from "grantor" to "nongrantor" status may provide an opportunity to shift taxable business income to lower-bracket trust beneficiaries. Jane would be compensated, in part, for lost income through a reduction of her own income tax obligations. Multiple methods can be used to accomplish this result. Bernstein cannot render tax or legal advice; Jane should consult her own tax and legal professionals before implementing any of the ideas set forth in this presentation.

Source: AB Bernstein

"Vertical Slice" Planning Concept: Increase the Inside Basis of an Asset Prior to its Sale

- Planning concept
  - Family limited liability company (LLC) contributes two of its assets—one highly appreciated asset that it wishes to sell to a third party and one depreciated asset—to a newly formed LLC ("Newco")
  - Family LLC then distributes all of its member interests in Newco, pro rata, to its own members—thus, Newco is a "vertical slice" partnership with the same capital structure as the original LLC
  - Newco distributes the depreciated asset to elderly member (G1), who has zero outside basis in his member interest, in partial or complete redemption of G1's interest in Newco
  - Newco makes a Section 754 election effective for the taxable year of the distribution
- Expected benefits
  - Under IRC 732, the basis of the distributed asset in G1's hands is reduced to zero (i.e., to G1's outside basis), but that basis will be "stepped-up" to fair market value upon G1's death
  - Unlike basis adjustments under IRC 743(b), under IRC 734(b), an amount equal to that basis reduction is allocated among the remaining assets of Newco for the benefit of all its members—not just G1—and in this case, the only such asset is the highly appreciated asset that is about to be sold
  - If G1 has a continuing interest in Newco, there potentially would be an additional—albeit partial—inside basis step-up to Newco's remaining assets upon G1's death

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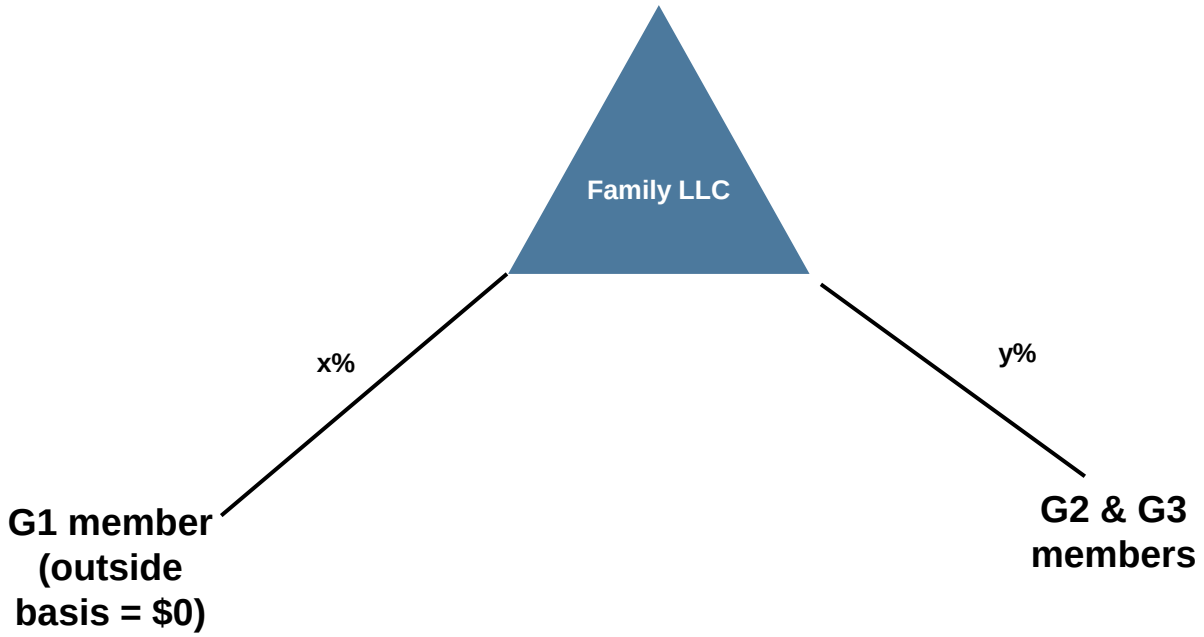
Vertical Slice Planning Concept: Initial Set-Up



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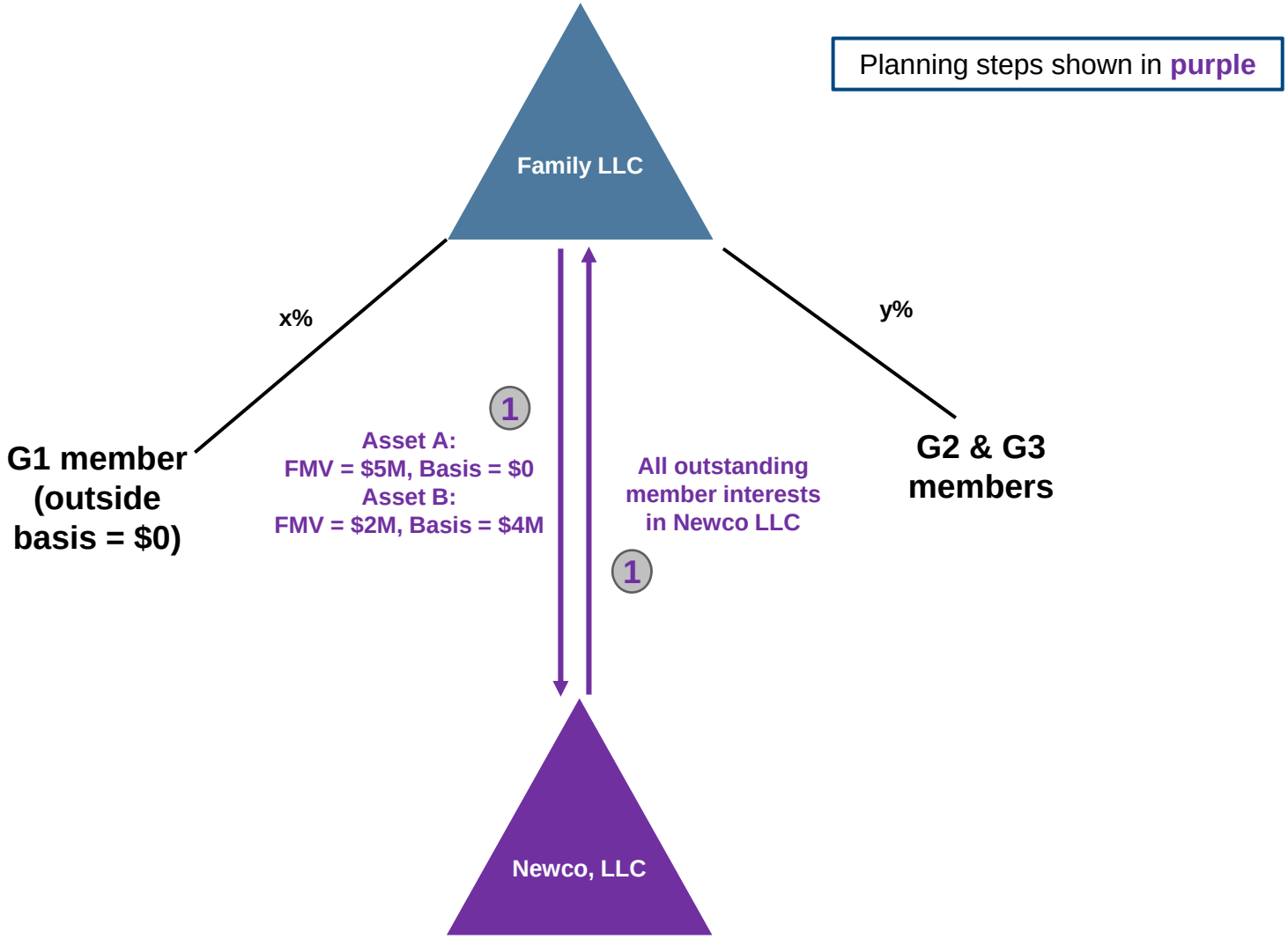
Vertical Slice Planning Concept: Establish "Newco" LLC



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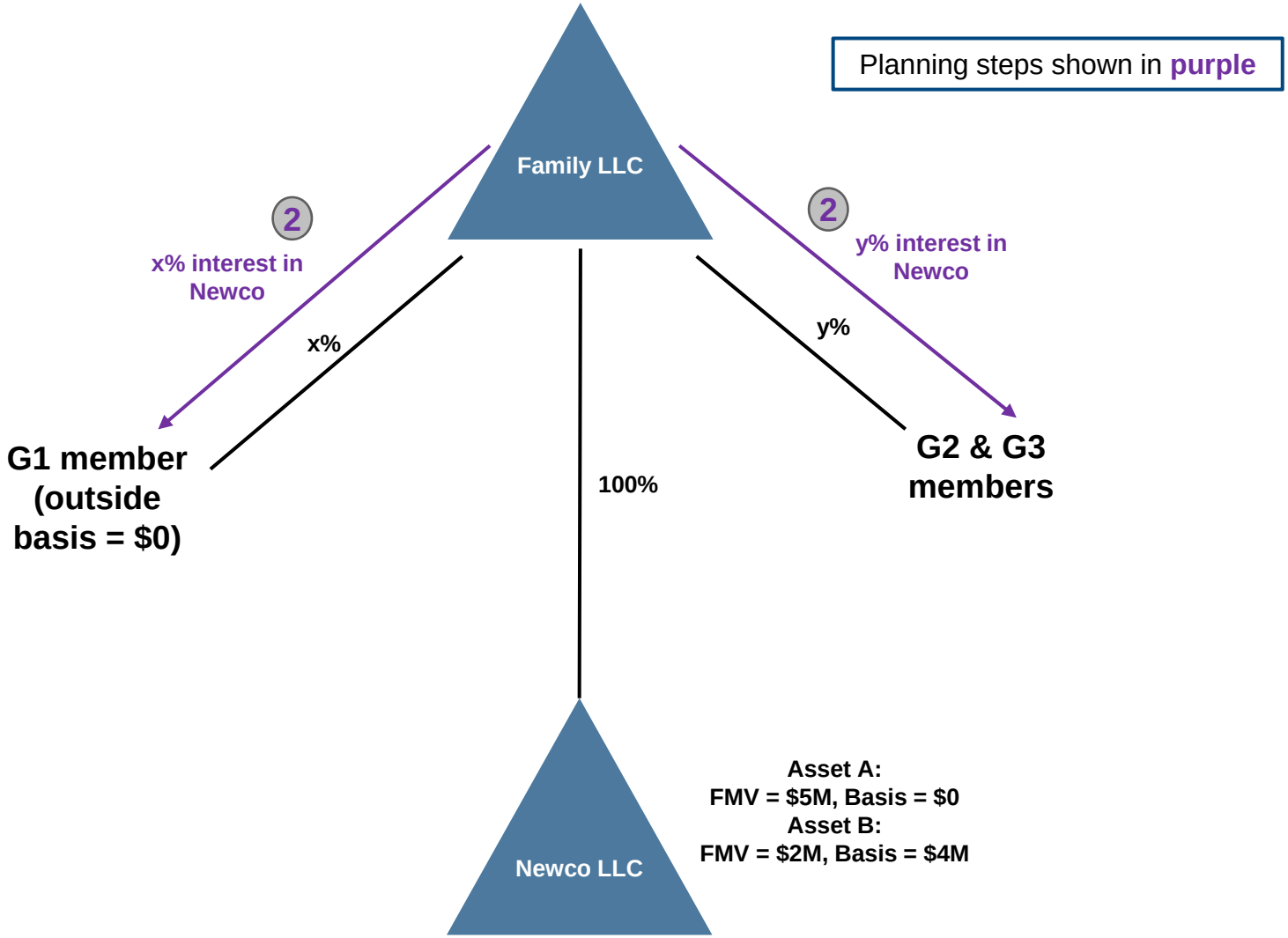
Vertical Slice Planning Concept: Distribute Member Interests



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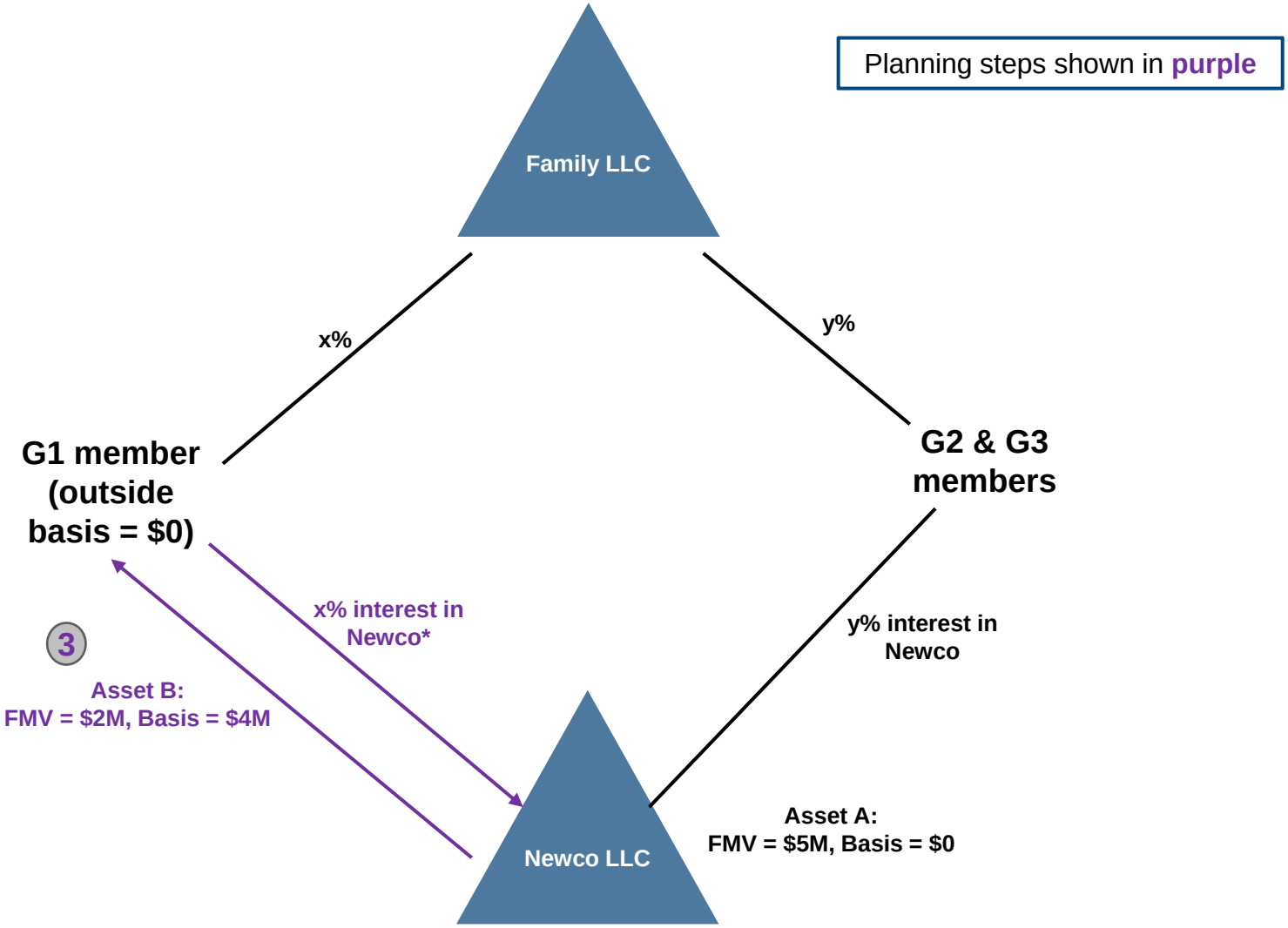
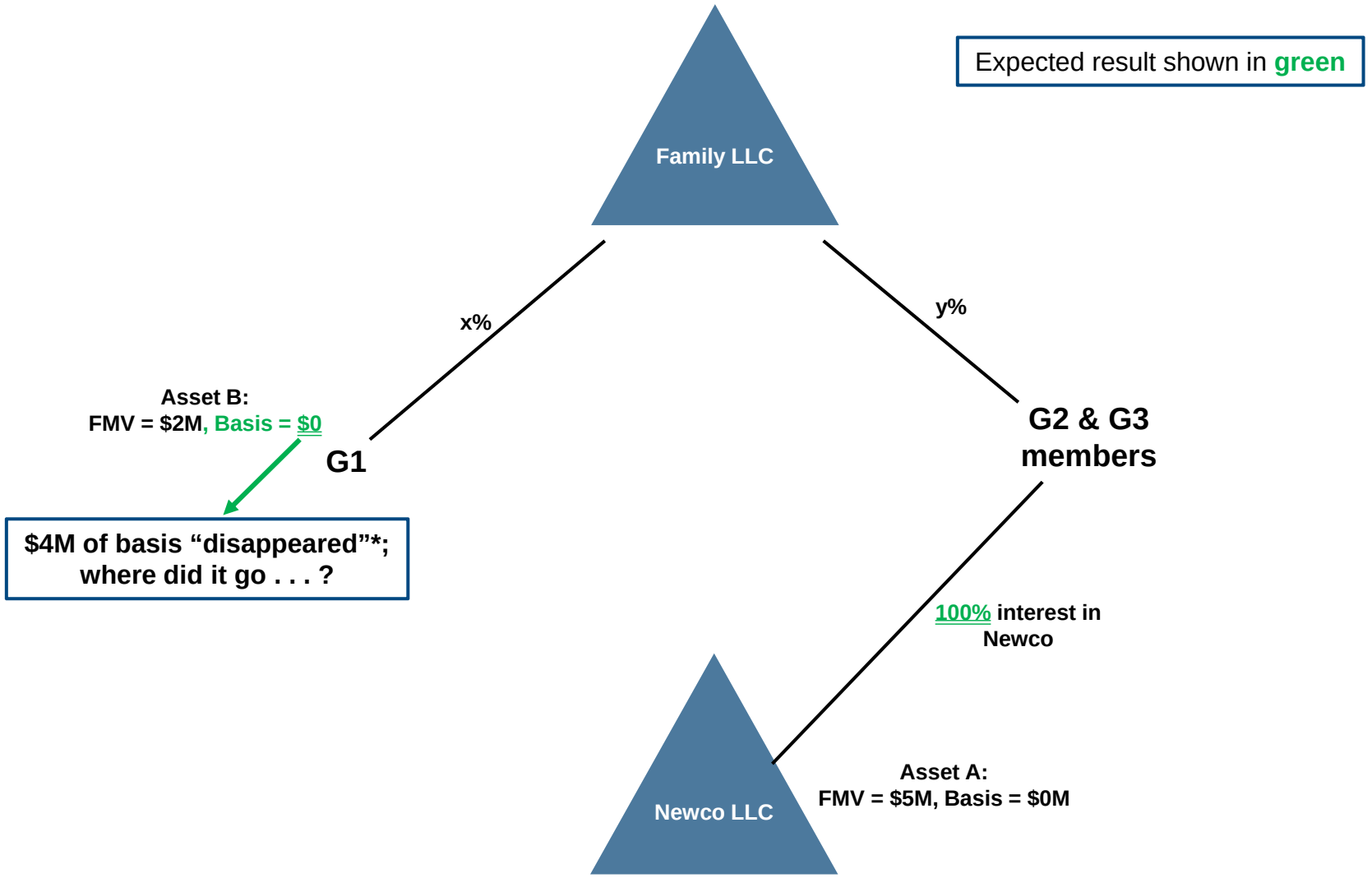
Vertical Slice Planning Concept: Distribute Depreciated Asset to G1



*For purposes of this illustration, we assume that distribution of Asset B to G1 is in complete liquidation of G1's interest in Newco LLC.
Sources: Paul S. Lee, "Venn Diagrams: The Intersection of Estate & Income Tax (Planning in the ATRA-Math)," 48th Annual Heckerling Institute on Estate Planning and AB. Bernstein is not a legal, tax or estate advisor. Investors should consult these professionals as appropriate before making any decisions.

Vertical Slice Planning Concept: Result of Distribution



*See Internal Revenue Code Section 732(b). For purposes of this illustration, we assume that distribution of Asset B to G1 is in complete liquidation of G1's interest in Newco LLC.
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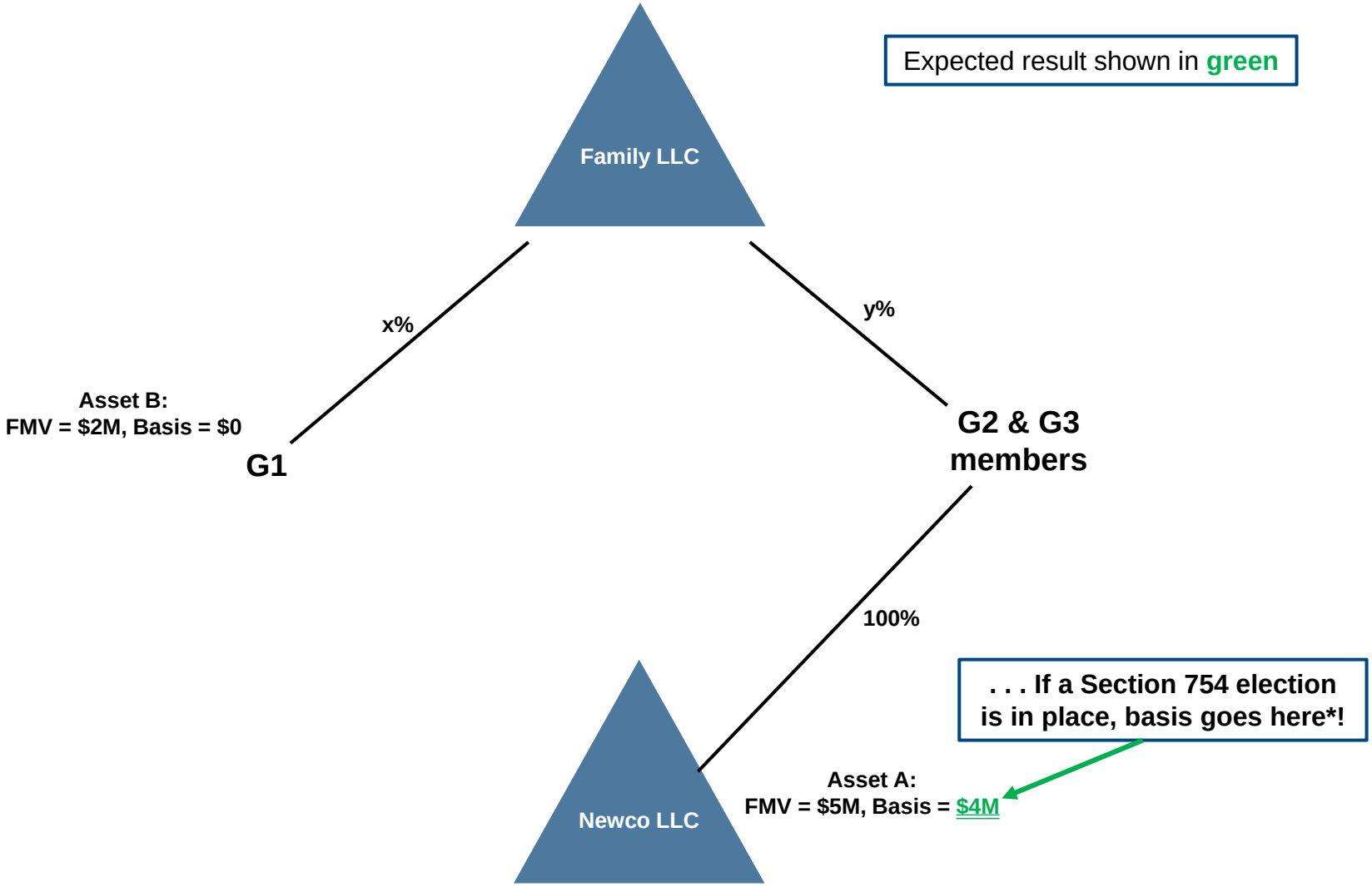
Vertical Slice Planning Concept: Basis Shift



*See Internal Revenue Code Section 734(b)(1)(B).
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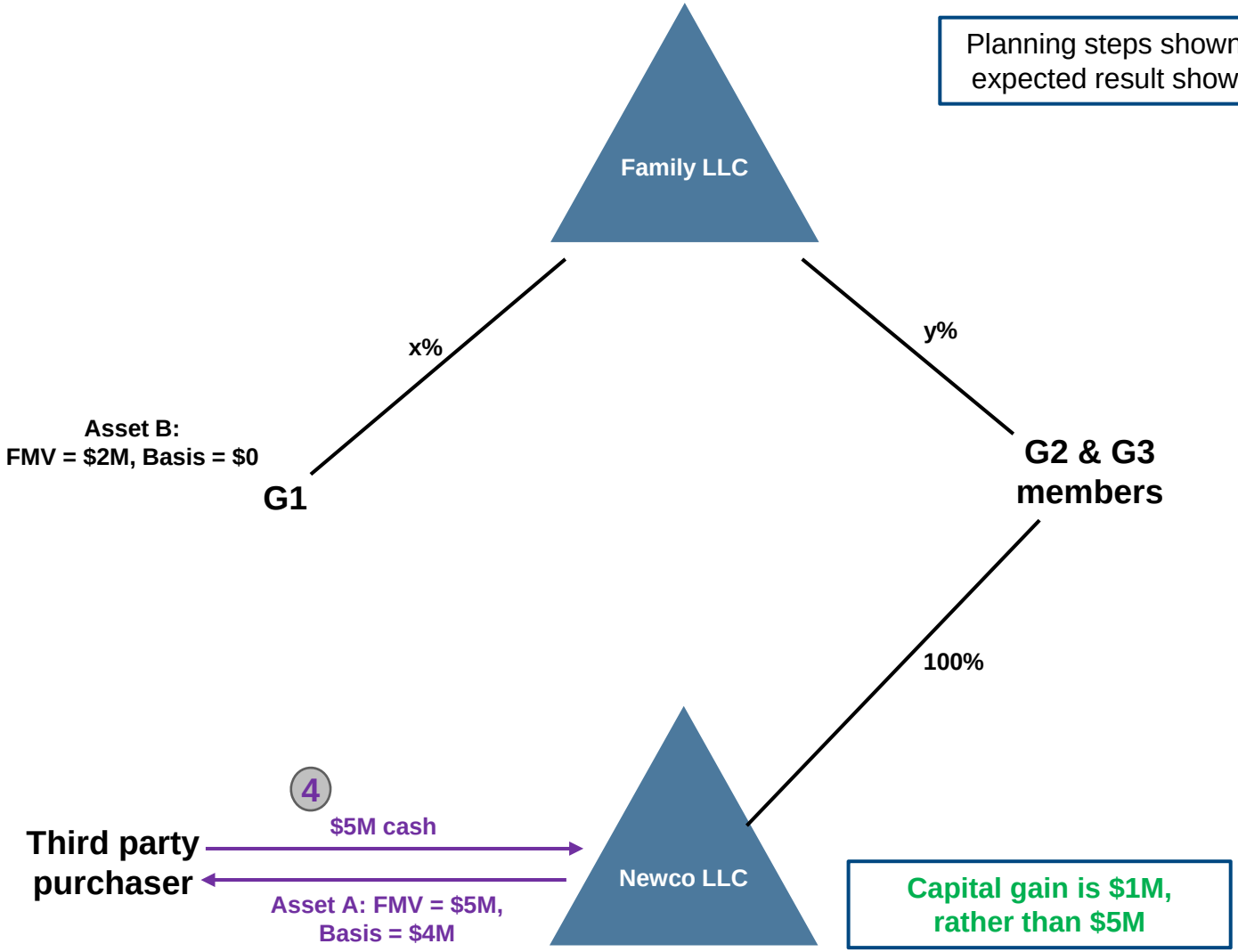
Vertical Slice Planning Concept: Newco Sells Appreciated Asset



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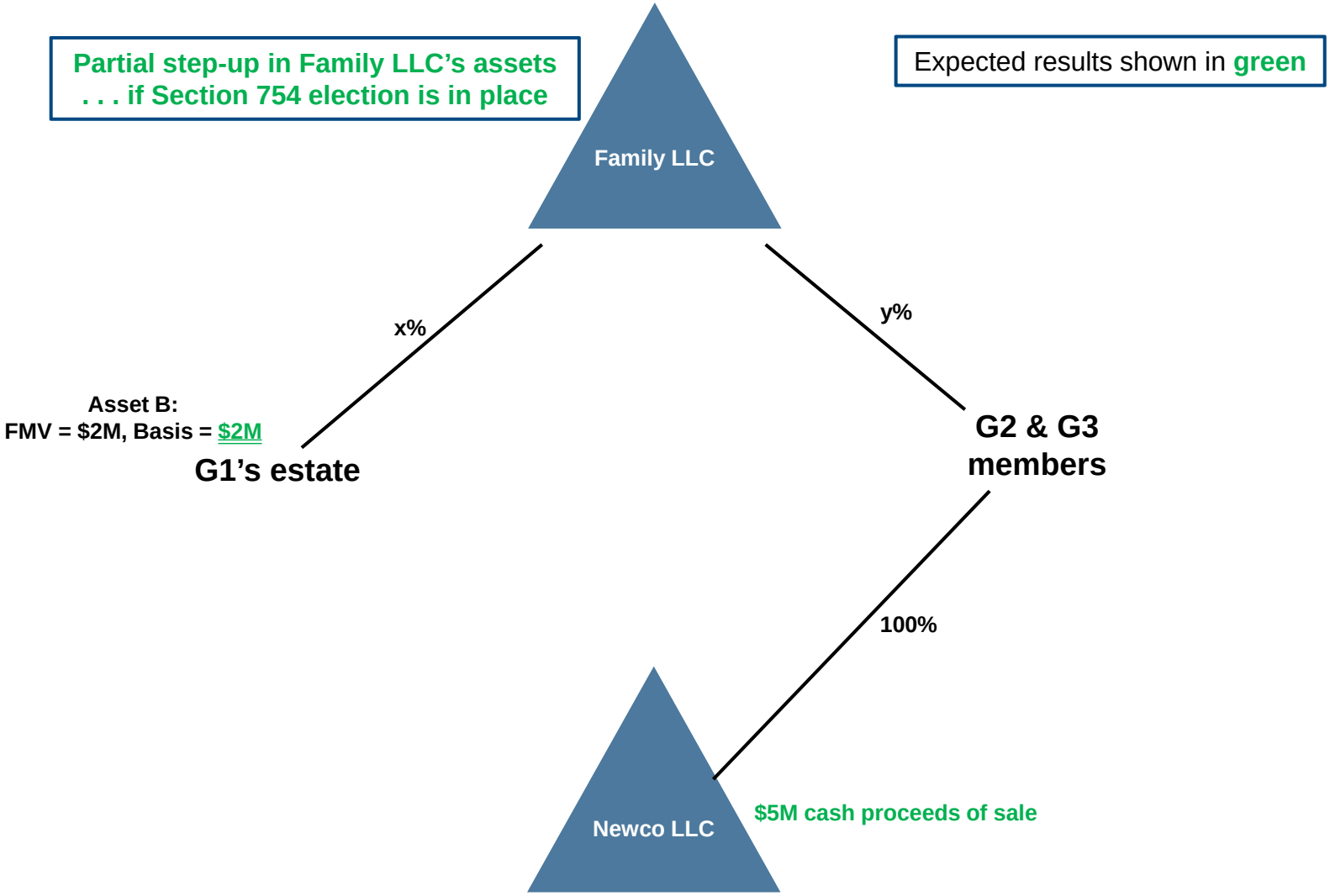
Vertical Slice Planning Concept: "Double Step-Up" at G1's Death



Sources: Paul S. Lee, "Venn Diagrams: The Intersection of Estate & Income Tax (Planning in the ATRA-Math)," 48th Annual Heckerling Institute on Estate Planning and AB. Bernstein is not a legal, tax or estate advisor. Investors should consult these professionals as appropriate before making any decisions.

Testamentary and Post-Mortem Strategies to Enhance Basis

- Strategies that may provide a second basis "step-up" for credit shelter trust assets at the surviving spouse's death
  - Grant the surviving spouse a conditional general power of appointment (GPA) equal to her or his available applicable exclusion amount
  - Empower a trust protector to create a testamentary GPA exercisable by the surviving spouse
  - Give an independent trustee broad power to distribute principal to the surviving spouse prior to her or his death
- Section 754 election to "step-up" the basis of the decedent's proportionate share of assets held in a entity that is taxed as a partnership (i.e., "inside basis")
  - Amount of inside basis step-up is limited to the decedent's "outside basis" step-up at death
  - Only the estate and its successors-in-interest benefit from a post-mortem Section 754 election—not the other partners

Sources: Paul S. Lee, "Venn Diagrams: The Intersection of Estate & Income Tax (Planning in the ATRA-Math)," 48th Annual Heckerling Institute on Estate Planning and AB. Bernstein is not a legal, tax or estate advisor. Investors should consult these professionals as appropriate before making any decisions.

Example of an "Upstream" Basis Planning Concept: "Accidentally Perfect" Grantor Trust . . . and a Puzzle

- Planning concept
  - Wealthy child (G2) transfers assets in trust for the benefit of "poor" parent (G1)
  - At inception, G2 is the deemed owner of the trust assets for federal income tax purposes
  - G1 is granted a testamentary GPA over some or all assets in that trust
- Planning issue: Should G1 exercise the GPA or allow it to lapse?
  - If the GPA is exercised
    - Assets to which the exercised power relate clearly receive a "step-up" in basis under IRC 1014(b)(4)
    - <u>But</u> G2 is no longer the deemed owner of the trust assets for federal income tax purposes
  - If GPA lapses
    - G2 may still be deemed owner of the trust assets for income tax purposes
    - <u>But</u> the basis step-up may be reduced under IRC 1014(b)(9) by the amount of any prior amortization, depletion, and depreciation deductions taken by "the taxpayer"

Sources: Paul S. Lee, "Venn Diagrams: The Intersection of Estate & Income Tax (Planning in the ATRA-Math)," 48th Annual Heckerling Institute on Estate Planning (citing Mickey R. Davis & Melissa J. Willms, "Trust and Estate Planning in a High-Exemption World and the 3.8% 'Medicare' Tax: What Estate and Trust Professionals Need to Know," University of Texas School of Law 61st Annual Tax Conference—Estate Planning Workshop (2013)) and AB.


A
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Appendix

Case Study: Inversion Transaction—When Someone Sells "Your" Business Out from Under You

Assumptions

- Married couple, each age 55, Minnesota residents—but considering a move to Texas or Florida
- $10 million of *publicly traded*, zero-basis Medtronic, Inc. (MDT) stock
- Company is expected to undertake acquisition of an offshore company ("inversion transaction") which, if completed, will trigger $10 million capital gain
- Time horizon: 40 years

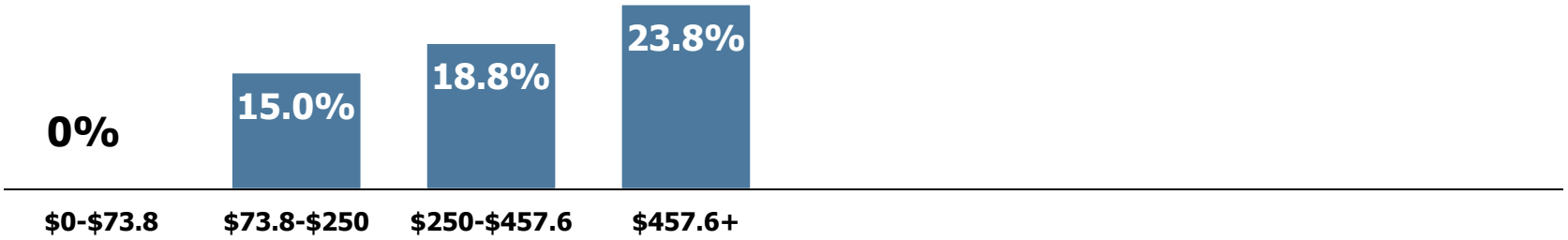
*Throughout this analysis, "global stocks" means 21% U.S. value, 21% U.S. growth, 21% U.S. diversified, 22.5% developed international, 7.5% emerging markets, and 7% U.S. small/mid-cap.
Source: AB

Progressivity of Federal Tax Brackets Has Increased

Marginal *Federal* Tax Rate on Long-Term Capital Gains and Qualified Dividends*
Joint Filers, Income Brackets ($ Thou.)

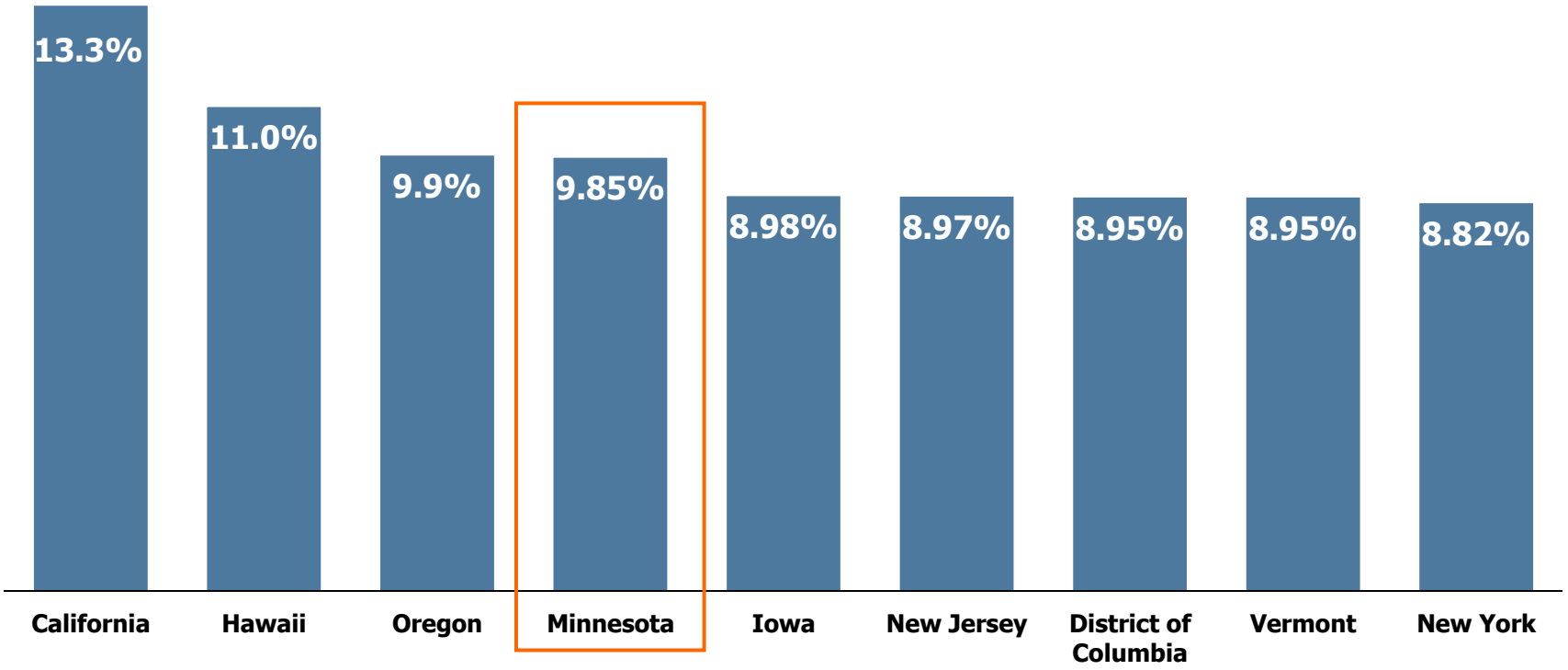
Long-Term Capital Gain	Tax
$500k—Top Marginal	$119,000
$500k—Full Bracket Run	$75,550

Δ = $43,450 per taxpayer, per year



*Based on Health Care and Education Reconciliation Act of 2010 and the American Taxpayer Relief Act of 2012. Long-term capital gains rates in 2014: 0% on capital-gains portion of taxable income up to $73,800, 15% on income over $73,800 to $457,600, and 20% on income above $457,600. Medicare surtax of 3.8% applies to net investment income that exceeds a modified adjusted-gross-income of $250,000. All income thresholds are based on joint filers. Bernstein is not a legal, tax or estate advisor. Investors should consult these professionals as appropriate before making any decisions.
Sources: IRS and AB

Highest 2014 State Income Tax Rates*



*As of January 1, 2014. Top rate on "last dollar" of income. Local income taxes not included.
Source: taxfoundation.org

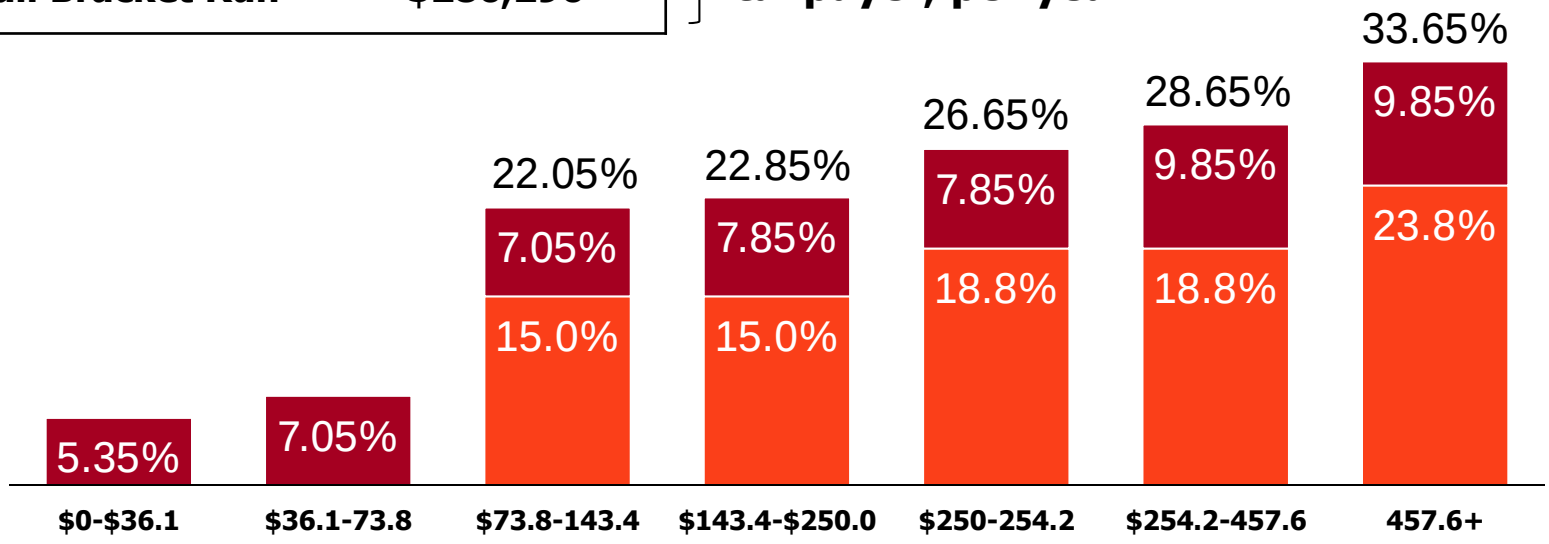
Progressivity Is Even More Dramatic When State Income Tax Brackets Are Considered

Marginal Federal *and* *State* Tax Rate on Long-Term Capital Gains and Qualified Dividends*

Joint Filers, Income Brackets ($ Thou.)

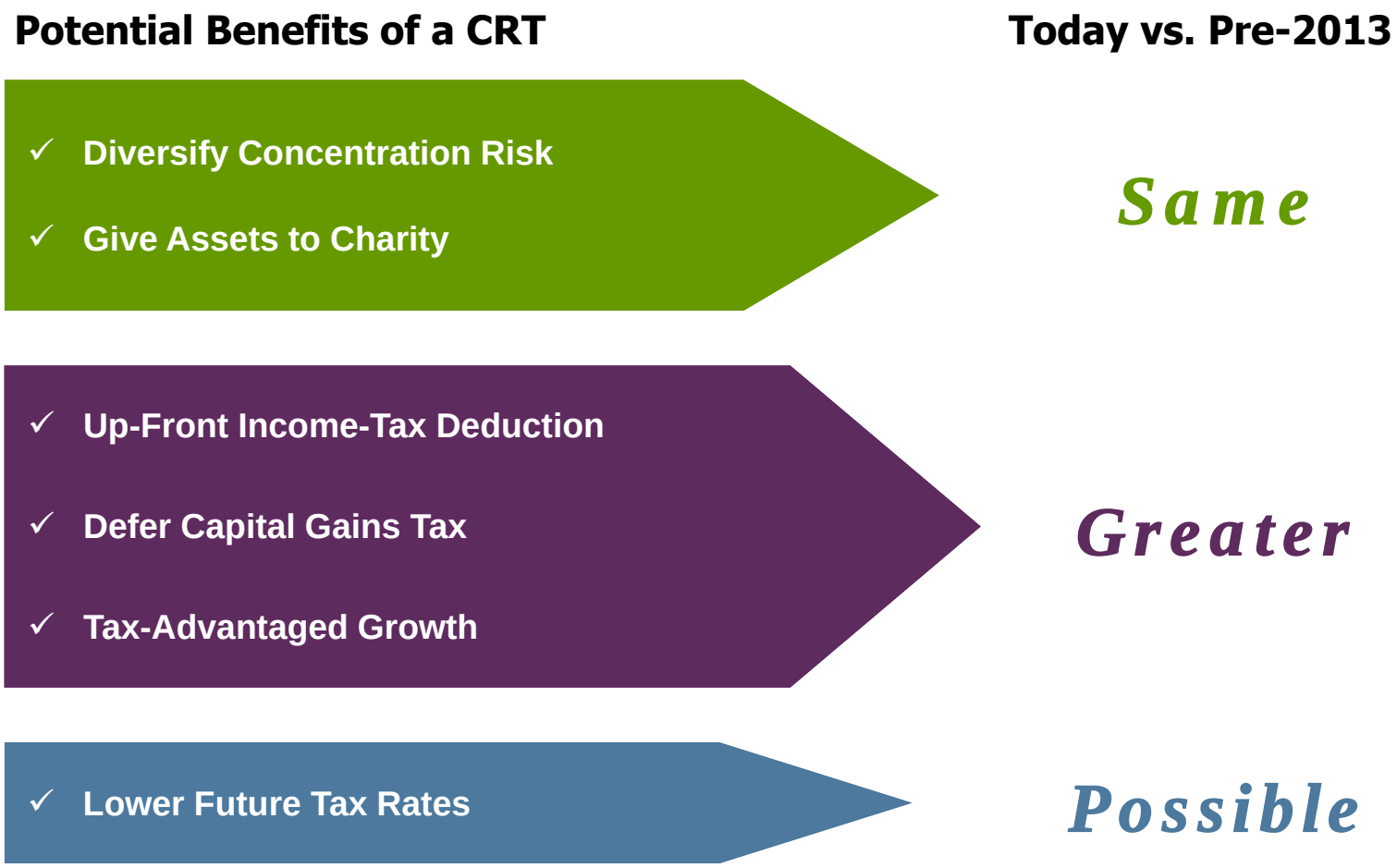
Long-Term Capital Gain	Tax
$1M—Top Marginal	$336,500
$1M—Full Bracket Run	$286,296

Δ = $50,294 per taxpayer, per year



*Based on Health Care and Education Reconciliation Act of 2010 and the American Taxpayer Relief Act of 2012. Long-term capital gains rates in 2014: 0% on capital-gains portion of taxable income up to $73,800, 15% on income over $73,800 to $457,600, and 20% on income above $457,600. Medicare surtax of 3.8% applies to net investment income that exceeds a modified adjusted-gross-income of $250,000. All income thresholds are based on joint filers. Assumes taxpayers are subject to the alternative minimum tax (AMT). Bernstein is not a legal, tax or estate advisor. Investors should consult these professionals as appropriate before making any decisions.
Sources: IRS and AB

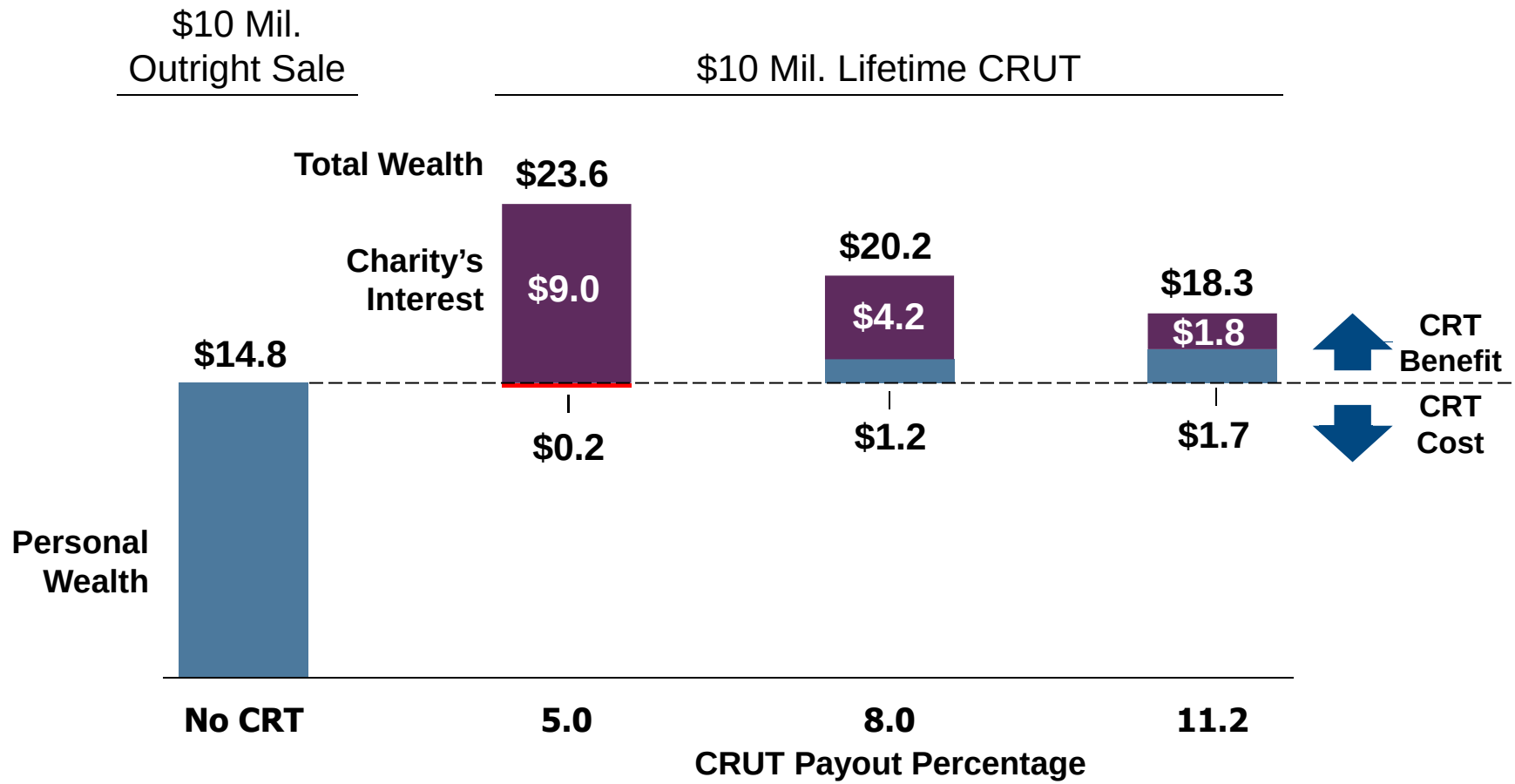
Today's Tax Rate Landscape Makes CRTs More Attractive



Source: AB

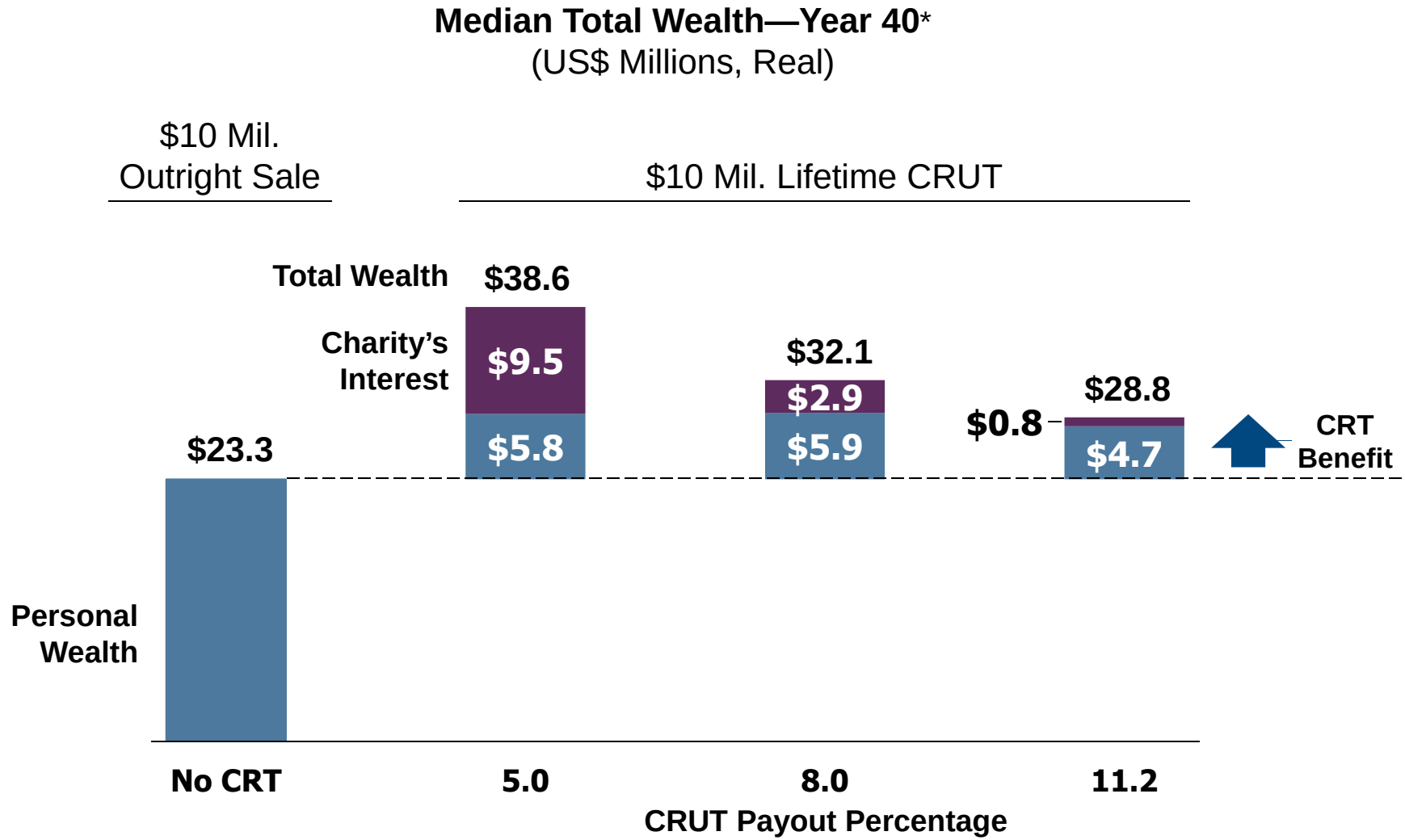
Charity Benefits More When Payout Rate Is Low

Median Total Wealth—Year 25*
(Real, $ Mil.)



*Wealth values include charitable deduction from CRT based upon joint lifetime of two 65 year olds and a section 7520 rate of 2.4%.
Based on Bernstein's estimates of the range of long-term returns for the applicable capital markets. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Notes on Wealth Forecasting System in Appendix for further details.
Source: AB

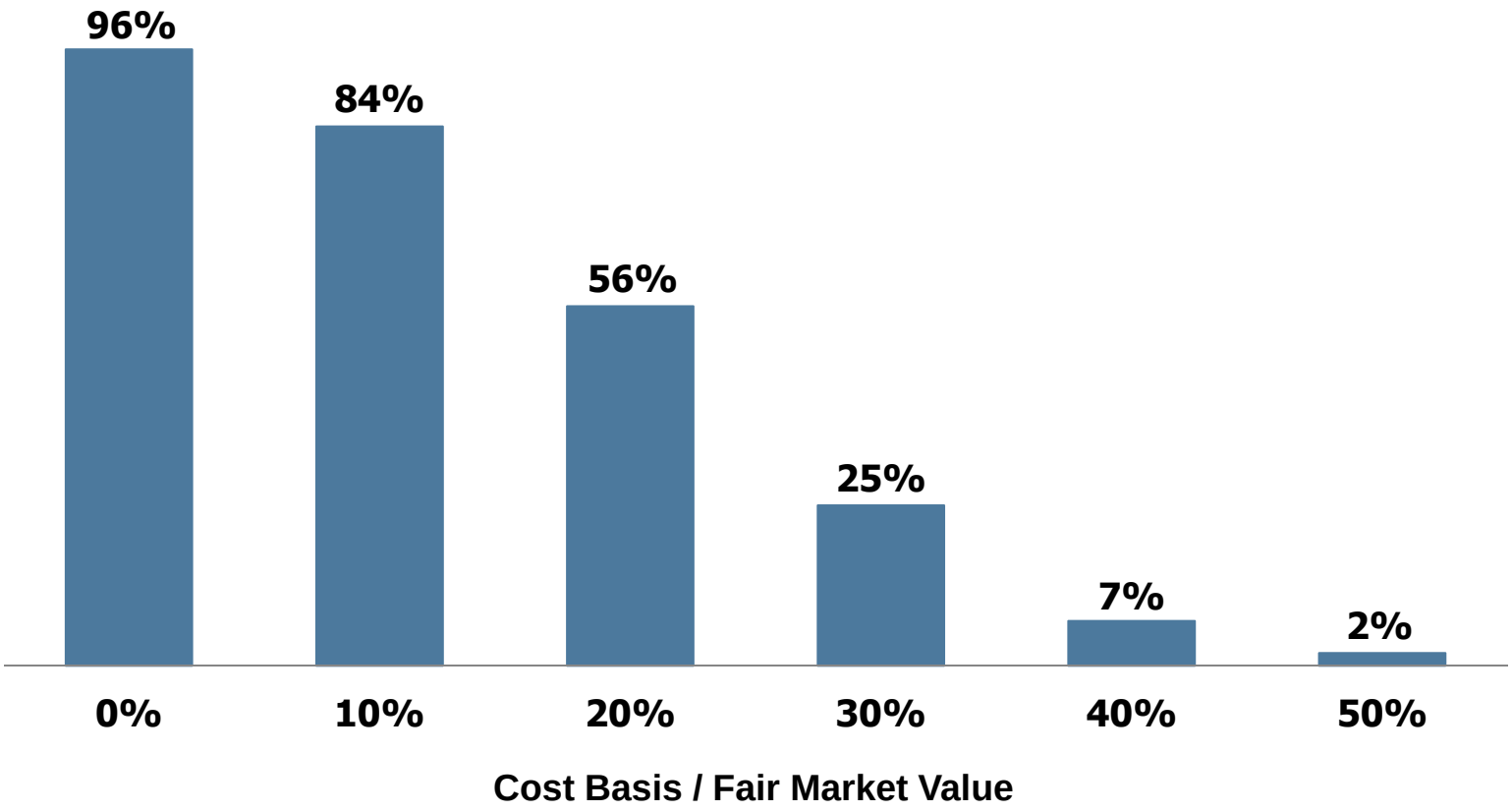
Over Very Long Horizons, CRUTs Can Enhance Personal Wealth Significantly



*Wealth values include charitable deduction from CRT based upon joint lifetime of two 65 year olds and a section 7520 rate of 2.4%.
Based on Bernstein's estimates of the range of long-term returns for the applicable capital markets. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Notes on Wealth Forecasting System in Appendix for further details.
Source: AB

CRUTs Work Best When Contributed Assets Have ***Lots*** of Built-In Capital Gain

Odds of More Personal Wealth—Year 25*
8% CRUT vs. Outright Sale



*Wealth values include charitable deduction from CRT based upon joint lifetime of two 65 year olds and a section 7520 rate of 2.4%.
Based on Bernstein's estimates of the range of long-term returns for the applicable capital markets. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Notes on Wealth Forecasting System in Appendix for further details.
Source: AB

Some Assets Benefit from a "Step-Up," Others May Not

Asset Type	Comments
Creator-Owned Copyrights, Trademarks, Patents and Artwork	During the life of the creator of intellectual property and artwork, the creator has a zero basis in the asset, and all payments, whether from a sale of the asset or from the licensing of the property, are considered ordinary income. On the death of the creator, the property is included in the estate and receives a step-up in basis to fair market value. The beneficiaries receive the asset immediately as a long-term capital gain asset. The foregoing does not apply to patents that qualify for and are sold under Section 1235 of the Internal Revenue Code of 1986, as amended, which qualify for long-term capital gain tax treatment.
"Negative-Basis" Commercial Real Property LP or LLC Interests	Owners of partnership interests with a "negative basis" would recognize long-term capital gain and ordinary income upon a taxable transaction due to accelerated depreciation and a reduction of the partner's share of debt. Upon death, the "negative basis" is eliminated because the partnership interests and the underlying property receive a step-up in basis (with a partnership election). For this purpose, "negative basis" means debt in excess of tax basis; as a technical matter, one's adjusted basis cannot be less than zero.
Artwork, Gold and Other "Collectibles"	Artwork and gold (including Gold ETF investments) are considered "collectibles" under the Code, and they are subject to a 28% long-term capital gain tax rate. Gains are also subject to the Medicare surcharge.
Low-Basis Stock	Capital asset subject to a 20% long-term capital gain tax rate and the Medicare surcharge. The step-up in basis eliminates the gain.
Roth IRA Assets	With a Roth IRA, the ordinary income tax of a traditional IRA has essentially been prepaid. Because the assets in a Roth IRA will grow income tax free, will be distributed tax free to the beneficiaries, and will not be subject to the Medicare surcharge, this is one of the better things to pass through the estate. Like other IRA and qualified plan assets, during life the owner is unable to give Roth IRA assets to non-charitable beneficiaries. As such, these assets are often includable in the estate of the decedent owner.
High-Basis Stock	Capital asset subject to a 20% long-term capital gain tax rate and the Medicare surcharge. Because the tax basis is high, very little gain is eliminated by the step-up in basis.
Fixed Income	Most fixed income investments are purchased at or near par and have very little appreciation potential above its basis. As such, very little gain is eliminated by the step-up in basis. A couple of exceptions to this rule include bonds purchased at a deep discount and long-duration bonds in a falling interest rate environment.
Cash	Basis of cash is always equal to its fair market value (face value).
Stocks at a Loss	Death results in a "step-down" in basis. The capital loss that the decedent could have recognized prior to death is eliminated and does not pass to the beneficiaries.
Variable Annuities	Payments are taxable as ordinary income and return of basis. The ordinary income portion is considered income In Respect of a Decedent (IRD). As such, on death, the beneficiaries continue to recognize the ordinary income portion of the payments, and there is no benefit to the step-up in basis.
Traditional IRA and Qualified Plan Assets	All assets in traditional IRAs and in qualified plans are considered 100% IRD (other than non-deductible contributions to IRAs). As such, there is no benefit to the step-up in basis at the death of the owner, and the beneficiaries continue to be subject to ordinary income (but not the Medicare surcharge) on any distributions. Because these assets cannot be given during life to non-charitable beneficiaries, these assets are problematic in that they often use up the decedent's applicable exclusion amount for estate tax purposes (unless passed to a spouse or charity). The benefit from the IRD income tax deduction applies only to federal (not state) estate tax paid. Under ATRA, the federal rate is only 40%; for some that rate would have been 55% had the sunset provisions of EGTRRA 2001 come into effect as scheduled on 1/1/2013.

Bernstein does not provide tax, legal or accounting advice. Please consult professionals in those areas before making any decisions.
Source: AllianceBernstein

Notes on State Income and State Death Taxes (As of July 31, 2013)

State	State Income Tax[1]	Top State Death Tax Rate[2]	2013 State Death Tax Threshold[2]
Alabama	5.00%	No state death tax	
Alaska	0.00%	No state death tax	
Arizona	4.54%	No state death tax	
Arkansas[3]	4.90%	No state death tax	
California	13.30%	No state death tax	
Colorado	4.63%	No state death tax	
Connecticut (Estate & Gift Tax)	6.70%	12% (Estate & Gift Tax)	$2,000,000 (Estate & Gift Tax)
Delaware	6.75%	16.00%	$5,250,000 (Indexed for inflation)
District of Columbia	8.95%	16.00%	$1,000,000
Florida	0.00%	No state death tax	
Georgia	6.00%	No state death tax	
Hawaii	11.00%	16.00%	$5,250,000 (Indexed for inflation)
Idaho	7.40%	No state death tax	
Illinois	5.00%	15.70%	$4,000,000
Indiana	3.40%	No state death tax	Inheritance tax repealed in 2013
Iowa (Inheritance Tax)	8.98%	Inheritance Tax—No tax on lineal heirs	
Kansas	4.90%	No state death tax	
Kentucky (Inheritance Tax)	6.00%	Inheritance Tax—No tax on lineal heirs	
Louisiana	6.00%	No state death tax	
Maine	7.95%	12.00%	$2,000,000
Maryland (Estate & Inheritance Tax)	5.75%	16.00%	$1,000,000; Inheritance tax—No tax on lineal heirs
Massachusetts	5.25%	16.00%	$1,000,000
Michigan	4.25%	No state death tax	
Minnesota (Estate & Gift Tax)	9.85%	16% (Estate Tax); 10% (Gift Tax)	$1,000,000 (Estate Tax); $1,000,000 (Gift Tax)
Mississippi	5.00%	No state death tax	
Missouri	6.00%	No state death tax	
Montana[4]	4.90%	No state death tax	
Nebraska (County Inheritance Tax)	6.84%	1.00%	County inheritance tax
Nevada	0.00%	No state death tax	
New Hampshire[8]	0.00%	No state death tax	
New Jersey (Estate & Inheritance Tax)	8.97%	16.00%	$675,000; Inheritance tax—No tax on lineal heirs
New Mexico[5]	2.45%	No state death tax	
New York	8.82%	16.00%	$1,000,000
New York City	12.70%	16.00%	$1,000,000
North Carolina	7.75%	No state death tax	Estate tax repealed in 2013
North Dakota[3]	2.79%	No state death tax	
Ohio	5.93%	No state death tax	
Oklahoma	5.25%	No state death tax	
Oregon	9.90%	16.00%	$1,000,000
Pennsylvania (Inheritance Tax)	3.07%	4.50%	$3,500 (Family exemption amount, may not apply in all circumstances)
Rhode Island	5.99%	16.00%	$910,725
South Carolina[6]	3.92%	No state death tax	
South Dakota	0.00%	No state death tax	
Tennessee[7] (Inheritance Tax)	0.00%	9.50%	Inheritance tax—Top rate for lineal heirs is 9.5%—exemption $1.25 million (for 2013 deaths); increases to $2 million for 2014 deaths, $5 million for 2015 deaths and is eliminated beginning in 2016, Tenn. Code Ann. § 67-8-316 (b) (2011), as amended by Tenn. Pub. Act ch. 1057.
Texas	0.00%	0.00%	No state death tax
Utah	5.00%	0.00%	No state death tax
Vermont[9]	8.95%	16.00%	$2,750,000
Virginia	5.75%	0.00%	No state death tax
Washington	0.00%	20.00%	$2,000,000 (Indexed against the Consumer Price Index for the Seattle-Tacoma-Bremerton metropolitan area)
West Virginia	6.50%	0.00%	No state death tax
Wisconsin[3]	5.43%	0.00%	No state death tax
Wyoming	0.00%	0.00%	No state death tax

Bernstein does not provide tax, legal or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.
Blended state and federal capital gains rate, assume client is in AMT and state income tax deduction is not available.
[1]Source: TaxFoundation.org
[2]Source: Survey of State Estate, Inheritance, and Gift Taxes (Updated: December 2012); Research Department, Minnesota House of Representatives (Joel Michael, Legislative Analyst)
[3]Taxpayers may exclude 30% of net long-term capital gain for state taxes; tax rate displayed is 70% of the state income tax rate.
[4]Taxpayers can claim a capital gains tax credit against their Montana income tax up to 2% of their net capital gain; tax rate displayed is net of credit.
[5]Taxpayers may deduct $1,000 or 50% of net capital gains, whichever is greater; tax rate displayed is net of 50% deduction.
[6]Net capital gains that have been held for a period of more than one year and have been included in South Carolina taxable income are reduced by 44% for South Carolina income tax purposes.
[7]6% of state income tax on dividends and interest only.
[8]5% State income tax on interest and dividends only and
[9]A flat exclusion is allowed for capital gains held longer than 3 years, equal to the lesser of $5,000 or 40% of federal taxable income.

Notes on Wealth Forecasting System

1. Purpose and Description of Wealth Forecasting System

Bernstein's Wealth Forecasting System[SM] is designed to assist investors in making long-term investment decisions regarding their allocation of investments among categories of financial assets. Our new planning tool consists of a four-step process: (1) Client Profile Input: the client's asset allocation, income, expenses, cash withdrawals, tax rate, risk-tolerance level, goals and other factors; (2) Client Scenarios: in effect, questions the client would like our guidance on, which may touch on issues such as when to retire, what his/her cash-flow stream is likely to be, whether his/her portfolio can beat inflation long term and how different asset allocations might impact his/her long-term security; (3) The Capital Markets Engine: Our proprietary model, which uses our research and historical data to create a vast range of market returns, takes into account the linkages within and among the capital markets, as well as their unpredictability; and finally (4) A Probability Distribution of Outcomes: Based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of returns and asset values the client could expect to experience are represented within the range established by the 5th and 95th percentiles on "box and whiskers" graphs. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not establish the boundaries for all outcomes. Expected market returns on bonds are derived by taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long bonds by a reasonable amount, although this is in no way a certainty. Moreover, actual future results may not meet Bernstein's estimates of the range of market returns, as these results are subject to a variety of economic, market and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results or the actual probability that these results will be realized.

2. Rebalancing

Another important planning assumption is how the asset allocation varies over time. We attempt to model how the portfolio would actually be managed. Cash flows and cash generated from portfolio turnover are used to maintain the selected asset allocation between cash, bonds, stocks, REITs and hedge funds over the period of the analysis. Where this is not sufficient, an optimization program is run to trade off the mismatch between the actual allocation and targets against the cost of trading to rebalance. In general, the portfolio allocation will be maintained reasonably close to its target. In addition, in later years, there may be contention between the total relationship's allocation and those of the separate portfolios. For example, suppose an investor (in the top marginal federal tax bracket) begins with an asset mix consisting entirely of municipal bonds in his/her personal portfolio and entirely of stocks in his/her retirement portfolio. If personal assets are spent, the mix between stocks and bonds will be pulled away from targets. We put primary weight on maintaining the overall allocation near target, which may result in an allocation to taxable bonds in the retirement portfolio as the personal assets decrease in value relative to the retirement portfolio's value.

3. Expenses and Spending Plans (Withdrawals)

All results are generally shown after applicable taxes and after anticipated withdrawals and/or additions, unless otherwise noted. Liquidations may result in realized gains or losses that will have capital gains tax implications.

Notes on Wealth Forecasting System

4. Modeled Asset Classes

The following assets or indexes were used in this analysis to represent the various model classes:

Asset Class	Modeled As...	Annual Turnover Rate
Intermediate-Term Diversified Municipal Bonds	AA-rated diversified municipal bonds with seven-year maturity	30%
US Diversified	S&P 500 Index	15
US Value Stocks	S&P/Barra Value Index	15
US Growth Stocks	S&P/Barra Growth Index	15
Developed International Stocks	MSCI EAFE Unhedged	15
Emerging Markets Stocks	MSCI Emerging Markets Index	20
US SMID	Russell 2000	15

5. Volatility

Volatility is a measure of dispersion of expected returns around the average. The greater the volatility, the more likely it is that returns in any one period will be substantially above or below the expected result. The volatility for each asset class used in this analysis is listed on the Capital Markets Projections page at the end of these Notes.
In general, two-thirds of the returns will be within one standard deviation. For example, assuming that stocks are expected to return 8.0% on a compounded basis and the volatility of returns on stocks is 17.0%, in any one year it is likely that two-thirds of the projected returns will be between (8.9)% and 28.0%. With intermediate government bonds, if the expected compound return is assumed to be 5.0% and the volatility is assumed to be 6.0%, two-thirds of the outcomes will typically be between (1.1)% and 11.5%. Bernstein's forecast of volatility is based on historical data and incorporates Bernstein's judgment that the volatility of fixed income assets is different for different time periods.

6. Technical Assumptions

Bernstein's Wealth Forecasting System is based on a number of technical assumptions regarding the future behavior of financial markets. Bernstein's Capital Markets Engine is the module responsible for creating simulations of returns in the capital markets. Except as otherwise noted, these simulations are based on inputs that summarize the current condition of the capital markets as of March 31, 2013. Therefore, the first 12-month period of simulated returns represents the period from April 1, 2013, through March 31, 2014, and not necessarily the calendar year of 2013. A description of these technical assumptions is available upon request.

Notes on Wealth Forecasting System

7. Tax Implications

Before making any asset allocation decisions, an investor should review with his/her tax advisor the tax liabilities incurred by the different investment alternatives presented herein, including any capital gains that would be incurred as a result of liquidating all or part of his/her portfolio, retirement-plan distributions, investments in municipal or taxable bonds, etc. Bernstein does not provide tax, legal or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

8. Income Tax Rates

Bernstein's Wealth Forecasting System has used various assumptions for the income tax rates of investors in the case studies that constitute this analysis. See the assumptions in each case study (including footnotes) for details. Contact Bernstein for additional information.

The Federal Income Tax Rate is Bernstein's estimate of either the top marginal federal income tax rate or an "average" rate calculated based upon the marginal-rate schedule. The Federal Capital Gains Tax Rate is the lesser of the top marginal federal income tax rate or the current cap on capital gains for an individual or corporation, as applicable. Federal tax rates are blended with applicable state tax rates by including, among other things, federal deductions for state income and capital gains taxes. The State Tax Rate generally is Bernstein's estimate of the top marginal state income tax rate, if applicable.

The Wealth Forecasting System uses the following top marginal federal tax rates unless otherwise stated: For 2013 and beyond, the maximum federal ordinary income tax rate is 43.4% and the maximum federal capital gain and qualified dividend tax rate is 23.8%.

9. Estate Transfer and Taxation

The Wealth Forecasting System models the transfer of assets to children, more remote descendants, and charities, taking into account applicable wealth transfer taxes. If the analysis concerns a grantor and his or her spouse, the System assumes that only the first to die owns assets in his or her individual name and that no assets are owned jointly. It is further assumed that the couple's estate plan provides that an amount equal to the largest amount that can pass free of Federal estate tax by reason of the federal unified credit against estate taxes (or, if desired, the largest amount that can pass without state death tax, if less) passes to a trust for the benefit of the surviving spouse and/or descendants of the first-to-die, or directly to one or more of those descendants. It is further assumed that the balance of the first-to-die's individually owned assets passes outright to the surviving spouse and that such transfer qualifies for the federal estate tax marital deduction. Any state death taxes payable at the death of the first-to-die after 2010 are assumed to be paid from the assets otherwise passing to the surviving spouse. To the extent that this assumption results in an increase in state death taxes under any state's law, this increase is ignored. In addition, it is assumed that the surviving spouse "rolls over" into an IRA in his or her own name any assets in any retirement accounts (e.g., an IRA) owned by the first to die, and that the surviving spouse withdraws each year at least the minimum required distribution ("MRD"), if any, from that IRA.
At the survivor's death, all applicable wealth transfer taxes are paid, taking into account any deductions to which the survivor's estate may be entitled for gifts to charity and/or (after 2010) the payment of state death taxes. The balance of the survivor's individually-owned assets passes to descendants and/or charities and/or trusts for their benefit. The survivor's retirement accounts (if any) pass to descendants and/or charities. To the extent that a retirement account passes to more than one individual beneficiary, it is assumed that separate accounts are established for each beneficiary and that each takes at least the MRD each year from the account. In all cases, it is assumed that all expenses are paid from an individual's taxable accounts rather than his or her retirement accounts to the maximum extent possible.

Notes on Wealth Forecasting System

10. Capital Markets Projections (Discount Case Study)

	Median 25-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	25-Year Annual Equivalent Volatility
Cash Equivalents	3.0%	3.4%	3.4%	0.3%	9.0%
Int.-Term Diversified Municipal Bonds	3.1	3.3	3.3	3.6	6.5
US Diversified	7.2	8.8	2.8	16.3	18.2
US Value	7.5	9.0	3.3	16.0	17.8
US Growth	6.9	8.9	2.2	18.1	19.6
Developed International	7.9	9.9	3.3	18.0	19.3
Emerging Markets	6.2	10.1	3.9	26.1	27.5
US SMID	7.4	9.5	2.4	18.7	20.7
Inflation	2.9	3.3	—	1.2	10.6

Data do not represent any past performance and are not a guarantee of any future specific risk levels or returns, or any specific range of risk levels or returns.
Based on 10,000 simulated trials each consisting of 25-year periods; contact Bernstein for additional information.
Reflects Bernstein's estimates and the capital market conditions as of September 30, 2014.

Notes on Wealth Forecasting System

11. Capital Markets Projections (Trust Income Case Study)

	Median 30-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	30-Year Annual Equivalent Volatility
Int.-Term Diversified Municipal Bonds	3.3%	3.6%	3.5%	3.3%	7.1%
Int.-Term Inflation Municipal Bonds	2.6	3.0	3.4	3.1	11.6
Long-Term Diversified Municipal Bonds	1.9	2.5	4.2	6.8	9.3
High Yield Bonds	4.7	5.5	10.4	12.4	13.2
US Diversified	7.6	9.2	2.9	16.3	18.8
US Value	7.9	9.4	3.4	15.8	18.6
US Growth	7.4	9.3	2.3	18.2	20.1
US SMID	7.8	9.8	2.5	18.6	21.3
Developed International	8.2	10.2	3.3	18.0	19.5
Emerging Markets	6.5	10.3	4.0	25.8	27.0
Diversified Hedge Fund Portfolio	6.0	6.6	3.1	10.8	16.5
Inflation	3.0	3.3	n/a	0.9	9.6

Based on 10,000 simulated trials each consisting of 30-year periods.

Reflects Bernstein's estimates and the capital market conditions of September 30, 2013.

For hedge fund asset classes, "Mean Annual Income" represents income and short-term capital gains.

Does not represent any past performance and is not a guarantee of any future specific risk levels or returns or any specific range of risk levels or returns.

Notes on Wealth Forecasting System

12. Capital Markets Projections (Inversion Case Study)

	Median 40-Year Growth Rate	Mean Annual Return	Mean Annual Income	One-Year Volatility	40-Year Annual Equivalent Volatility
Int.-Term Diversified Municipal Bonds	3.8	4.0	3.8	3.1	9.6
US Diversified	7.7	9.4	3.1	16.3	21.6
US Value	8.0	9.6	3.7	16.0	21.2
US Growth	7.5	9.5	2.5	18.1	23.0
Developed International	8.2	10.4	3.4	18.0	22.2
Emerging Markets	6.6	10.6	4.2	26.2	29.6
US SMID	7.9	9.9	2.7	18.7	23.8
Inflation	3.1	3.4	N/A	0.9	11.3

Based on 10,000 simulated trials each consisting of 40-year periods; contact Bernstein for additional information.

Reflects Bernstein's estimates and the capital market conditions as of March 31, 2014. Therefore, the first 12-month period of simulated returns represents the period from March 31, 2014 through March 31, 2015.

Data do not represent any past performance and are not a guarantee of any future specific risk levels or returns, or any specific range of risk levels or returns.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