ANNUAL INVESTMENT UPDATE

WORTH KNOWING™

ECONOMIC REVIEW & OUTLOOK

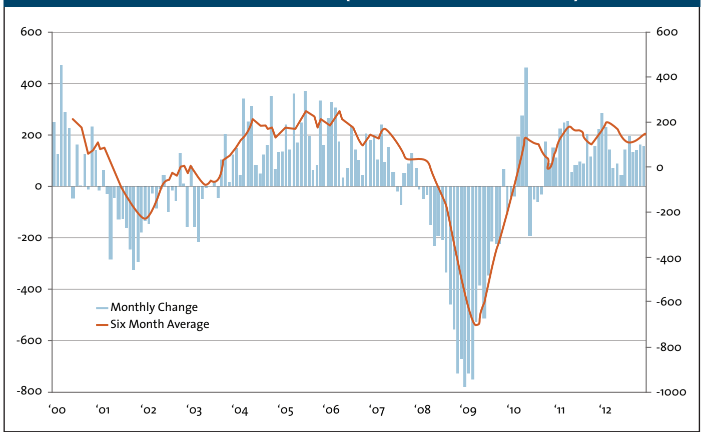
December 31, 2012

KEY ECONOMIC RELEASES

EMPLOYMENT	As of	Expected	Actual	Prior Period	12 Months Ago
Unit Labor Costs (3rd Quarter)	DEC	-1.0%	-1.9%	1.7%	-2.5%
Unemployment Rate	DEC	7.7%	7.8%	7.8%	8.5%
Change in Non-Farm Payrolls	DEC	152K	155K	161K	200K
INFLATION (year over year)	**As of**	**Expected**	**Actual**	**Prior Period**	**12 Months Ago**
Consumer Price Index	NOV	1.9%	1.8%	2.2%	3.4%
CPI Ex Food & Energy	NOV	2.0%	1.9%	2.0%	2.2%
Producer Price Index	NOV	1.8%	1.5%	2.3%	5.7%
HOME PRICES (year over year)	**As of**	**Expected**	**Actual**	**Prior Period**	**12 Months Ago**
S&P/Case Shiller Top 20 Mkts.	OCT	4.0%	4.3%	3.0%	-3.4%
MANUFACTURING ACTIVITY	**As of**	**Expected**	**Actual**	**Prior Period**	**12 Months Ago**
Capacity Utilization	NOV	78.0%	78.4%	77.7%	77.8%
Leading Indicators	NOV	-0.2%	-0.2%	0.3%	0.5%
GDP Annualized (3rd Quarter)	DEC	2.8%	3.1%	1.3%	1.8%

Source: Bloomberg

NONFARM PAYROLLS (THOUSANDS OF JOBS)



Source: U.S. BLS

At Perkins Coie Trust Company, we believe it is a priority to have a current financial plan, maintain a strategic asset allocation strategy, and employ tax awareness in the investment process. We also believe that investors must focus on fundamentals and diversify their portfolios by asset class, style, size and geography to manage market risk. We invite you to contact us to learn how we can help you achieve your financial goals. **For more information regarding our trust, investment and planning services, please contact us toll-free at 888.720.8382 or locally at 206.359.8407 or visit our website at trust.perkinscoie.com.**

Welcome 2013! We hope this year brings health, happiness and prosperity to you and your family. With the fiscal cliff negotiations finally passing the House and Senate, it's time to face the reality that markets will be dominated as much by politics as they will by economics in the coming year. The economic benefits are mixed by the compromise reached by Congress. Surprisingly, as all eyes focused on Washington, D.C., international equities rose substantially toward the end of 2012. Now more than ever, a long-term view, fundamentals and valuations are essential in building a sensible portfolio. The outlook for stocks is favorable even with the ongoing debt ceiling and European concerns. We will continue to monitor inflation, durable goods, and government intervention, as well as unemployment where a lot more improvement is needed. The markets have done well thanks largely to central bank actions around the globe. It is likely that overseas growth will out pace U.S. GDP growth in 2013. Look for a pick up in economic activity, boosting profits growth, as well as multiple expansion as clarity improves in mid 2013. Overall growth estimates this year for the U.S. are around 2% and trending upward to 3% in 2014.

Global economic growth in 2012 was disappointing. U.S. GDP growth was modest at approximately 2.1% but many regions fared worse. Growth slowed significantly in emerging economies, such as in China, Brazil, and India, and dipped into negative territory in the Eurozone and Japan. It is unusual for an economic recovery to run out of steam when policy has been so accommodative. In the U.S., uncertainty about taxes, regulation, and the overall outlook for demand has kept the corporate sector very cautious about spending and hiring. Fiscal uncertainty in the U.S., a.k.a. the Fiscal Cliff, created a range of GDP growth forecasts from -3%, if all of the Bush tax cuts expired and massive spending cuts occurred, to +3% under the most optimistic scenario. The budget deal in its present form, which raises payroll taxes by 2% and income taxes on income above $400,000 for individuals and $450,000 for couples, could reduce 2013 GDP growth by around 0.50%. Spending cuts are yet to be determined but eventual cuts in defense spending and entitlements could knock off another 1%.

Job growth in the U.S. is unchanged from 2012. Average nonfarm payroll growth was 151,000 jobs per month in 2012, compared to 147,000 per month in 2011. While job creation would appear to be a priority for policy makers, the current fiscal policy will do little to benefit the 12 million people who

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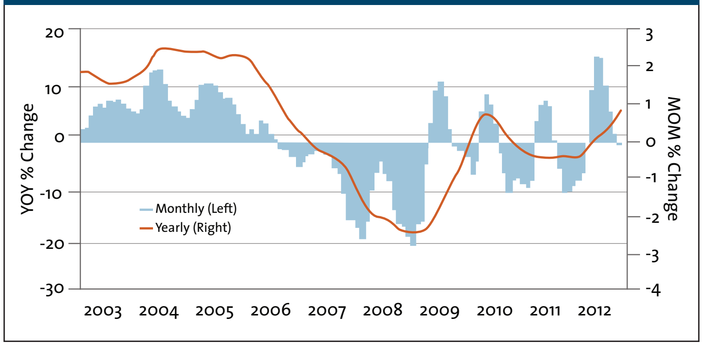
ECONOMIC REVIEW & OUTLOOK

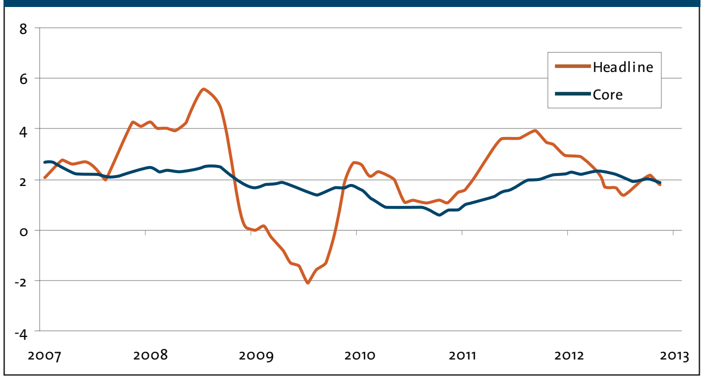
December 31, 2012

S&P CASE-SHILLER 20-CITY HOME PRICE INDEX



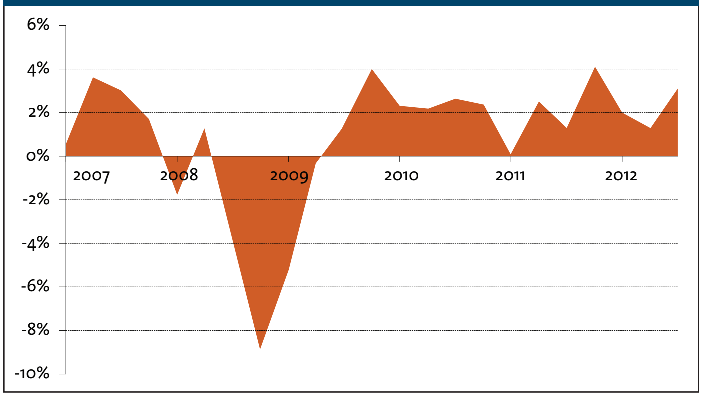
Source: Fidelity

CONSUMER PRICE INDEX - YEAR OVER YEAR % CHANGE



Source: Bloomberg

REAL GDP QUARTER OVER QUARTER SEASONALLY ADJUSTED ANNUAL RATE



Source: Bloomberg

are currently out of work. On a positive note, state and local governments may begin hiring for the first time since 2007 due to stronger balance sheets.

The housing sector was a bright spot in 2012 and should be again in 2013. Home prices rose 4.3% for the 12 months ending October 31 and should experience their first yearly gain since 2006. Prices rose thanks to strong demand and sharp declines in the number of homes for sale. Slow home construction, fewer foreclosures, and the reluctance of homeowners to sell at reduced prices has kept inventories at low levels. Home prices should continue to rise due to relatively cheap prices (with wide regional variances), low mortgage rates, and less pressure from distressed sales. Upward pricing momentum may also bring in buyers from the sidelines.

Inflation remains in check. Year-over-year change in the CPI through November was just 1.8%, and there is little evidence of substantial inflation in the pipeline. The Producer Price Index was up only 1.5% for the same period thanks to a drop in energy costs. An absence of inflation gives the Fed more room to continue quantitative easing. The U.S. Federal Reserve is prepared to provide more than $1 trillion of new stimulus in 2013 as part of the QE3 program that was launched in 2012. The Fed announced a plan in December to continue buying bonds and keep interest rates low until the unemployment rate drops below 6.5%. The U.S. jobless rate now stands at 7.8%. It remains to be seen, however, if low rates will promote hiring. A recent survey of chief financial officers concluded that reduced borrowing costs would not induce corporations to hire and invest. Companies are more interested in concrete healthcare and tax programs.

There's still work to be done on the fiscal cliff. The cliff compromise sent the stock market soaring on January 2, but the first half of 2013 may prove to be challenging for investors as many critical policy issues remain unresolved. Congress narrowly avoided the fiscal cliff but a major debate looms over the debt ceiling, the (delayed) spending sequester that kicks in on March 1, and the need for a continuing resolution to fund next year's budget in the absence of a traditional budget. Last year, political brinkmanship over the debt limit led to a downgrade of the country's credit rating, upset the equity markets, and left lingering doubts over the U.S.'s willingness to pay its bills on time.

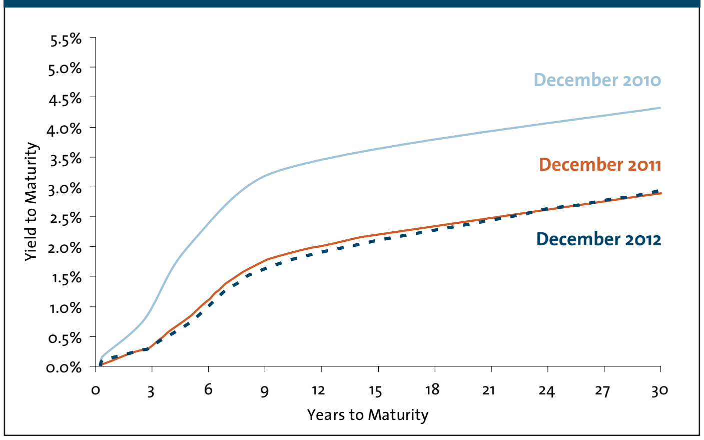
BOND MARKET REVIEW

December 31, 2012

BOND MARKET RETURNS	Latest Quarter	12 Months	Last 3 Years
Barclays Intermed. Gov/Credit	0.3%	3.9%	5.2%
Merrill Lynch Intermed. Muni	0.2%	3.4%	4.7%
Barclays High Yield	3.3%	15.8%	11.9%
Merrill Lynch 90 Day T-Bill	0%	0.1%	0.1%
Treasury Infl. Protected Sec.	0.6%	6.9%	8.8%

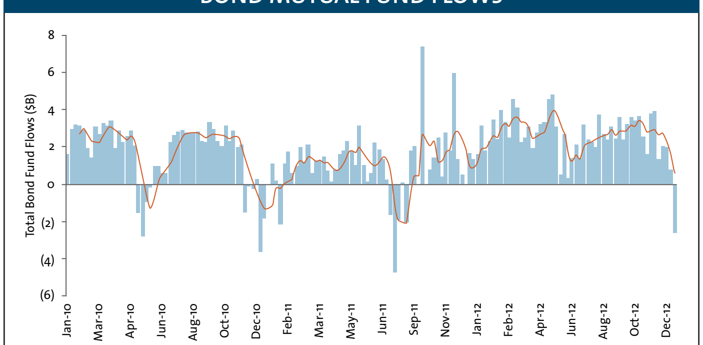
Source: Vanguard, Bloomberg. Vanguard's Inflation-Protected Securities Fund used as a proxy for Treasury Infl Protected Sec.

U.S. TREASURY YIELD CURVE COMPARISON



Source: Bloomberg

BOND MUTUAL FUND FLOWS



Source: Morgan Stanley

U.S. Government Bonds. U.S. Government debt of all maturities gained 2.2% in 2012, the worst return since a loss of 3.7% in 2009. The yield on five-year Treasuries dropped slightly to 0.72% from 0.83%. Economic and political uncertainties continued to hang over the markets, driving Treasury yields down to the lowest levels in history. The ten-year Treasury hit an all time low of 1.40% in July before finishing the year at 1.76%. TIPS returned 6.9% and have now outperformed Treasuries for the past four years helped by monetary stimulus, higher realized versus expected inflation, and improved market liquidity.

Corporate Bonds and High-Yield. High-grade debt issued by U.S. corporations hit an all-time high in 2012 – just over $1 trillion. Companies took advantage of low yields and strong investor demand. Most of the bond sales for the year refinanced higher interest debt but following the election, and companies were borrowing to reward shareholders. Costco Corp., for example, issued $3.5 billion in new bonds and used the proceeds to pay a special dividend which would have been taxed at a higher rate in 2013.

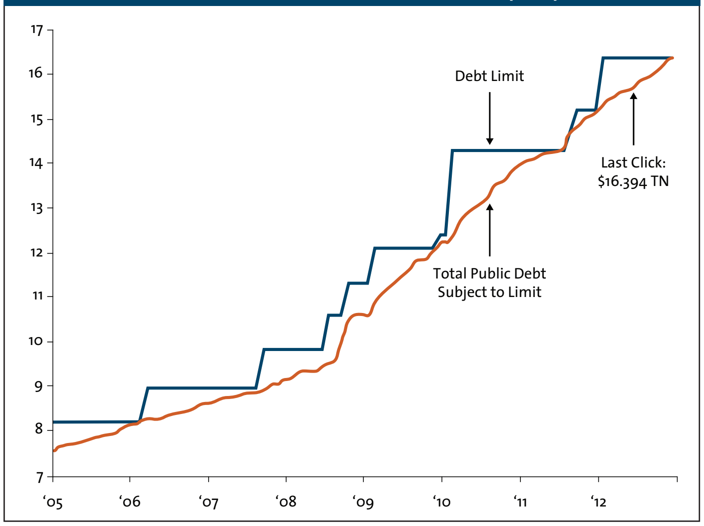
High-yield bonds were the strongest performers of the fixed income market with a gain of 15.8%. Junk bonds have posted double-digit returns in three of the past four years.

Municipal Bonds. The positive net inflows into bond mutual funds that began in 2008 reversed in December. Investors pulled money out of fixed income mutual funds in the last weeks of 2012, primarily municipal bond funds, as investors worried about tax changes in the new year and state-specific credit quality concerns reemerged. Defaults in 2012 were slightly greater than 2011, but at $2.7 billion, they represented just 0.072% of total municipals outstanding. More than half of the year's defaults came from airport-related bonds or special assessment bonds, a type of municipal bond used to fund development projects. Despite a drop of 1.2% in December, tax-free bond funds gained 3.4% for the full year.

BOND MARKET OUTLOOK

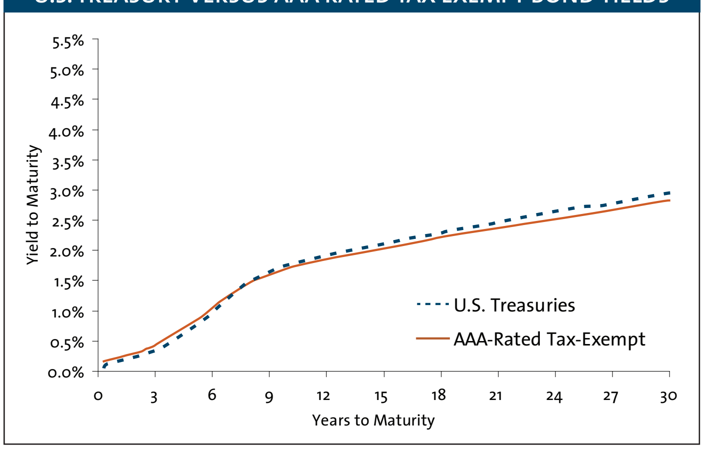
December 31, 2012

FEDERAL RESERVE PILING ON DEBT ($TN)



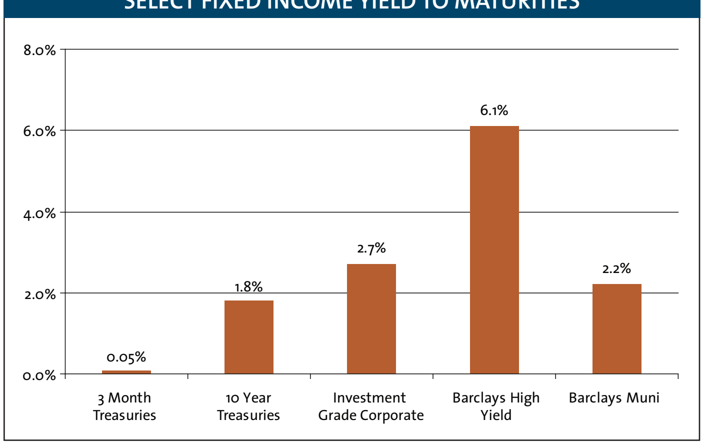
Source: Strategas

U.S. TREASURY VERSUS AAA RATED TAX EXEMPT BOND YIELDS



Source: Bloomberg

SELECT FIXED INCOME YIELD TO MATURITIES



Source: Northern Trust, Wall Street Journal

The bond market faces two major risks. First, economic uncertainty has been a friend to the bond market in recent years. If economic growth improves, both in the U.S. and abroad, and investor confidence improves, then cash may depart for riskier assets with more upsides. A number of well-known bond market traders and fixed income strategists are already pointing investors to other higher-yielding, higher-return potential segments of the market. The second major risk that bond investors face is an increase in inflation expectations that can lead to a rise in interest rates. Central banks throughout the world have been piling up debt and printing money for several years in an effort to keep economies from slipping back into recession. Several major Central Banks, including the Federal Reserve, have softened their attitudes toward inflation and are prepared to accept the prospect of higher prices to ensure some level of growth.

Fixed income investors should emphasize high-grade municipal bonds, investment-grade corporate bonds and should consider shortening portfolio duration. Given the threats to bond prices mentioned above, investors should hold bonds that pay a yield premium to Treasuries and should be prepared for an eventual increase in interest rates by holding bonds or bond funds with average maturities of around 5 to 7 years. There is a trade-off to holding bonds with short maturities, however, due to historically low yields in short-term municipal and corporate bonds. Money market funds are not much of a safe haven either, with yields far below the rate of inflation. Higher payroll taxes and a 4.5% increase in the marginal tax rate for households making more than $450,000 a year will drive demand for tax-exempt bonds. Also, investors can exclude municipal interest income from the 3.8% Medicare surtax on investment income, which increases the tax equivalent yield.

The average yield for investment grade corporate bonds has fallen to 2.7%, compared to 5.1% at the beginning of the year. With yields near record lows there isn't much room for price appreciation but a 2.7% yield is still attractive compared to 0.72% for 5-year Treasuries. If the economy expands, even modestly, most companies shouldn't have a problem repaying or refinancing existing debt.

In addition to shortening bond portfolio duration we would also recommend investors maintain allocations to Treasury Inflation Protected Securities (TIPS), commodities, real estate, and dividend-paying equities. For more information please see our white paper at www.trust.perkinscoie.com called "Staying ahead of inflation".

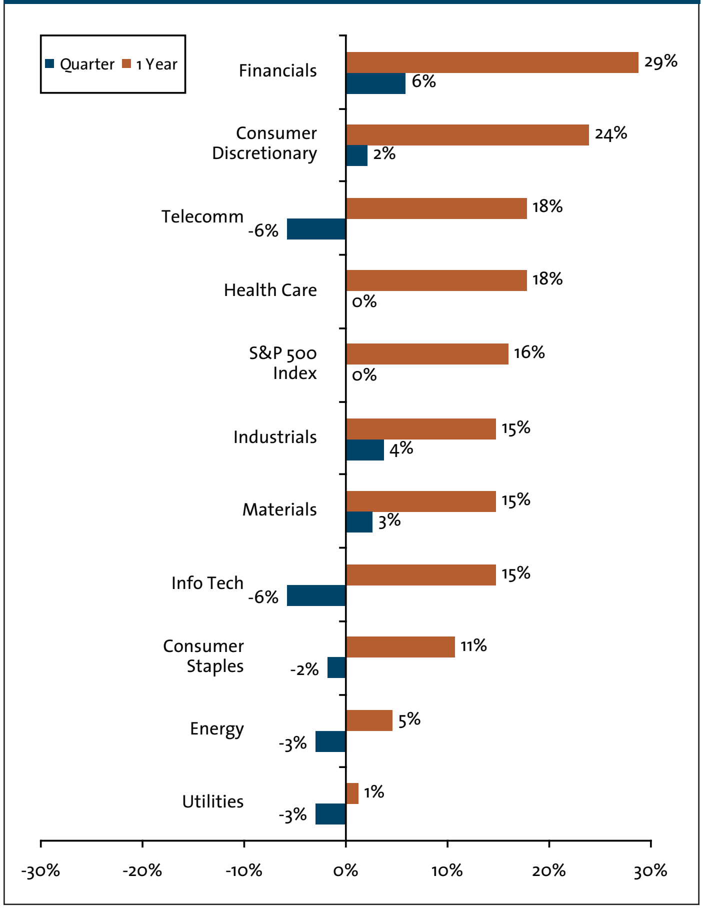
STOCK MARKET REVIEW

December 31, 2012

STOCK MARKET RETURNS	Latest Quarter	12 Months	Last 3 Years
S&P 500	-0.4%	16.0%	10.9%
Russell 1000 Growth	-1.3%	15.3%	11.3%
Russell 1000 Value	1.5%	17.5%	10.9%
S&P 400 Midcap	3.6%	17.9%	13.6%
Russell 2000	1.9%	16.3%	12.2%
MSCI Developed (EAFE)	6.6%	17.9%	4.1%
MSCI Emerging Markets	5.6%	18.2%	4.7%
ALTERNATIVE ASSET RETURNS	**Latest Quarter**	**12 Months**	**Last 3 Years**
DJ-UBS Commodity	-6.3%	-1.1%	0.1%
MSCI World Real Estate Index	5.5%	29.7%	13.7%

Source: Bloomberg

S&P 500 RETURNS BY SECTOR FOR 2012



Source: Strategas

In a year where negative news dominated headlines, double-digit returns across equity asset classes were both surprising and welcome. In stark contrast to last year's disappointingly low single-digit return for the S&P 500, the index gained a solid 16% in 2012, with the average large-cap fund returning 13%. Smaller company stock returns surged further with the S&P 400 rising 17.9% and the Russell 2000 climbing 16.3%. International markets beaten down in 2011 made a heroic comeback, with the bulk of returns arising in the final quarter. The MSCI Developed EAFE index gained 17.9%, and the MSCI Emerging Markets Index delivered 18.2%. Among Alternative Assets, declining oil prices contributed to a 1.1% decline in the DJ-UBS Commodity Index. Reports of improving conditions in the real estate sector led to superior results for the MSCI World Real Estate Index, which rose 29.7%.

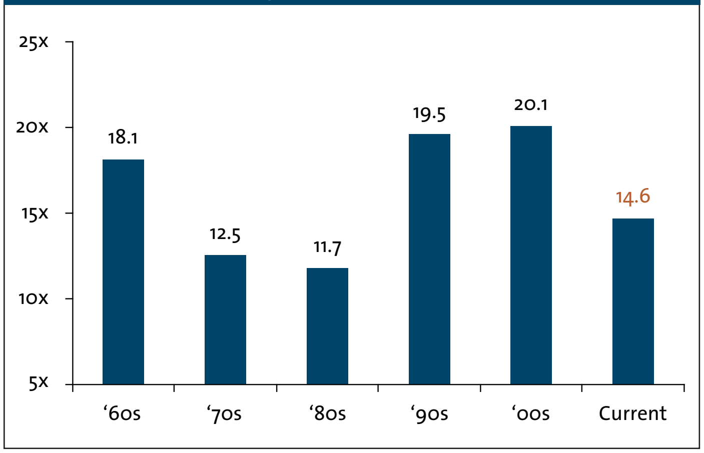
All market sectors rallied in 2012. After dropping 17% in 2011, Financials made a stellar comeback, rebounding 29% on continued stimulus and promises by the Federal Reserve to keep the economy on a steady growth path. On the flipside, Utilities, having led in 2011, lagged most in 2012, up only 1% as investors sought riskier assets. Energy was the second worst performer as global demand for oil fell, leading to lowered revenue growth projections and a 5% total return for the sector. Other top sector performers included Consumer Discretionary, achieving a return of 24%, and Healthcare and Telecom, both gaining 18%.

In hindsight, our outlook for equity market returns was overly cautious. While there was no shortage of uncertainty driving market volatility in 2012, we did not anticipate the strength of returns across equity markets when the year came to a close. As expected, domestic company earnings reached peak levels and downward earnings revisions were prevalent. Economic growth did indeed drop to a slower pace across the globe. Challenges in the Eurozone negatively impacted the profitability of many companies in that region. However, accommodation by the European Central Bank provided needed relief to investors and international markets rebounded strongly.

STOCK MARKET OUTLOOK

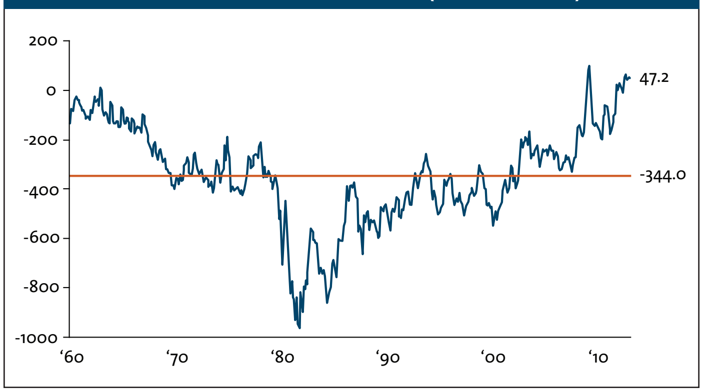
December 31, 2012

AVERAGE S&P 500 TRAILING "P/E" BY DECADE



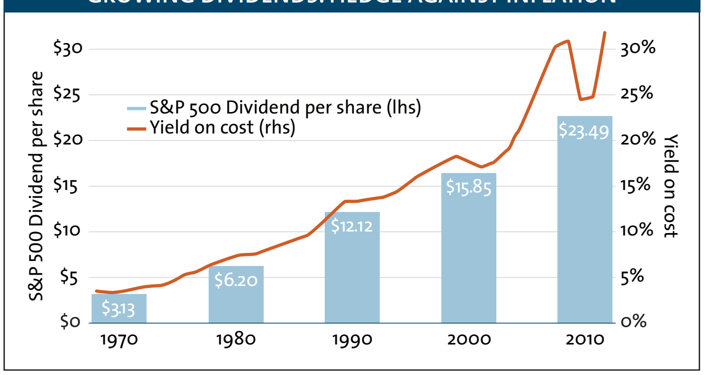
Source: Strategas

S&P 500 DIVIDEND YIELD MINUS 10-YEAR U.S. TREASURY YIELD (BASIS POINTS)



Source: Strategas

GROWING DIVIDENDS: HEDGE AGAINST INFLATION



Source: PIMCO

Price to earnings multiples should continue to expand. While corporate earnings growth reached peak levels and analysts began slashing estimates in 2012, price to earnings multiples expanded. The S&P 500's P/E multiple ended the year at 14.2x. As the chart indicates, the market is trading just under its average valuation of 14.6x since 2010. We believe valuations could expand further in 2013 as the economy continues to gradually recover and investors anticipate stronger profit growth in 2014.

Investors should seek high-quality stocks including undervalued growth stocks and dividend-paying stocks. In anticipation of stronger profit growth in 2014, high-quality stocks that are undervalued versus their earnings growth potential should outperform smaller, lower quality stocks. As interest rates linger at their lowest levels, investors seeking income will continue to be drawn to dividend-paying stocks, particularly those of companies expected to grow their dividends. The chart at left shows that the excess dividend yield of the S&P 500 over the 10-year treasury yield has reached levels seen only during the credit crisis in the past 50 years. With ongoing monetary accommodation by the Federal Reserve, inflation is likely to rise at some point and a growing stream of dividends can protect investors, as indicated in the bottom chart. Payout ratios, currently 30%, are far below the average of 50%, leaving ample room for companies to continue increasing their dividend payouts when business confidence resumes. Please refer to the white paper entitled "The Importance of Dividend-Paying Stocks" at www.trust.perkinscoie.com for more information.

Budget challenges must be addressed. While a compromise has been reached to avoid the Fiscal Cliff, the remaining near-term issues of the debt ceiling, spending cuts and entitlement reform must now be resolved. We need to see Congress band together to tackle these issues and develop a multi-step program that will eliminate the uncertainty over our long-term budgetary health. Businesses and consumers must remain inspired as they are the drivers of economic growth in our country. We hope our elected officials surprise us! We believe that investors who can take a longer-term view and stay the course through any volatility that arises during the budget discussions will be rewarded.

Perkins Coie Trust Company offers investment management services for trusts and estates, personal investment portfolios, individual retirement accounts, private foundations and endowments.

Professionals

Patrick A. Casey, CTFA, is President and Chief Executive Officer of Perkins Coie Trust Company. He has over 30 years of experience in the financial services industry advising private clients in areas of banking, trust and investment management, and wealth planning. He has held senior positions at Wells Fargo Bank, Merrill Lynch Trust Company and Bank of America. He graduated from St. John's University with a Bachelor of Science in Finance and received his MBA in Management from Fairleigh Dickinson University. Patrick is a Certified Trust and Financial Advisor. He is involved with the King County Boys and Girls Club Association, Rainier Scholars, the YMCA and is also a board member for the Mercer Island Baseball Booster Club. Patrick is a member of the Seattle Estate Planning Council.

Kevin M. Ylvisaker, CFA, is Chief Investment Officer and responsible for fixed income strategy. Kevin has over 18 years of experience in portfolio management, research and analysis, and previously was a vice president with BlackRock, Merrill Lynch, and Wells Fargo Bank. He has extensive experience managing portfolios for high net worth clients, foundations and institutional clients. Kevin obtained his MBA from the University of Washington and his bachelor's degree from Pacific Lutheran University. He is a Chartered Financial Analyst charterholder and a member of CFA Institute and the CFA Society of Seattle.

Sandra K. Jones, CFP,® is Senior Investment Officer and responsible for equity strategy. Sandra has over 15 years of investment experience managing portfolios for individuals and not-for-profit organizations. She previously was Vice President and a senior portfolio manager for Mellon Financial Corporation. She graduated from the University of Washington with a degree in business administration. Sandra is a Certified Financial Planner™ and a member of the Financial Planning Association. She serves on the board of Consumer Education and Training Services.

Brander L. Richmond, CFA, is an Investment Officer and supports all aspects of investment management including trade execution, investment research and analysis, performance measurement, investment compliance and client reporting. Prior to joining Perkins Coie Trust Company, Brander supported the senior portfolio manager at Baker Boyer National Bank in the Trust & Investment Group. Brander graduated Magna Cum Laude, Phi Beta Kappa from Whitman College with a Bachelor of Arts in Economics. Brander is a Chartered Financial Analyst charterholder and a member of the CFA Society of Seattle and the CFA Institute.

Investment Process

1. **Learn Client Goals and Needs**
2. **Establish Client Investment Objective and Strategy**
3. **Determine Asset Allocation Strategy**
4. **Construct and Monitor Portfolio of Investments**
5. **Review and Reassess Client Needs**

Trust Company Services

The investment process at Perkins Coie Trust Company is always client-driven. We meet routinely with clients to ensure that we incorporate changing life-cycle needs into our investment strategies.

SUPREME COURT DECISION REGARDING THE WASHINGTON STATE ESTATE TAX

OVERVIEW OF WASHINGTON SUPREME COURT DECISION

On October 18, 2012, the Washington Supreme Court issued a significant decision related to the assessment of Washington state estate taxes. See *In re Estate of Bracken* No. 84114-4 (Wash, Oct. 18, 2012). The Washington Supreme Court's decision in the *Bracken* case ruled in favor of the taxpayer and will potentially require the Washington Department of Revenue ("DOR") to issue refunds to estates for certain Washington state estate taxes already paid and prohibit the DOR from assessing Washington state estate taxes on certain trust assets held in an estates in the future.

In a unanimous decision with two opinions in support of its holding, the Washington Supreme Court held that a Washington state estate tax did not apply to any assets transferred to a trust upon the death of the first spouse if the transfer occurred before the enactment of the Washington state estate tax and such trust assets were not subject to Washington QTIP election. The Washington state estate tax was enacted on May 17, 2005. Accordingly, the Washington Supreme Court held that Washington state estate tax cannot be assessed on assets transferred to certain trusts prior to May 17, 2005. The DOR submitted a Motion for Reconsideration of the *Bracken* case on November 7, 2012, but this motion was recently denied.

In short, the *Bracken* holding recognizes that the Washington legislature implemented its new Washington state estate tax on May 17, 2005, and the death of a Washington resident prior to its enactment (i.e., any time before May 17, 2005) should not trigger state estate tax because the death and corresponding transfer of assets occurred at a point when the Washington state estate tax did not exist.

ESTATE TAX IMPACT OF WASHINGTON SUPREME COURT DECISION

The Washington Supreme Court's decision in *Bracken* potentially impacts those estates in which a Washington resident died prior to the enactment of the Washington state estate tax on May 17, 2005, and was survived by his or her spouse.

NOTE: If you are either (i) a surviving spouse and your spouse died prior to May 17, 2005, or (ii) the personal representative or trustee of an estate in which the first spouse died prior to May 17, 2005, *and* a trust subject to a federal QTIP election was created upon the first spouse's death for the benefit of the surviving spouse, you should consult with your attorney regarding whether the *Bracken* decision is applicable to your case.

The Washington Supreme Court's decision in *Bracken* will impact a taxpayer in two instances:

- **Eligibility for a Refund if the Surviving Spouse Is Now Deceased**. Under *Bracken*, the Washington Supreme Court ruled that the DOR incorrectly assessed Washington state estate taxes on estates that held certain trust assets that were not subject to a Washington QTIP election and were created upon the death of a Washington resident prior to May 17, 2005. These estates are now entitled to a refund from the DOR. However, absent a waiver agreement, refund claims are subject to a four-year statute of limitations period. As a result, a refund application submitted in 2013 for Washington state estate taxes erroneously paid by an estate will be timely only for those estates in which the first spouse died on or after April 1, 2008. The DOR is also responsible for interest accrued on the refund amount.
- **Non-Payment of Additional Washington State Estate Tax if the Surviving Spouse is Still Living**. If the first spouse died prior to May 17, 2005, created a trust for the benefit of the surviving spouse subject to a federal QTIP election, and did not make a Washington QTIP election for such trust, then at the surviving spouse's death the amount of trust assets held in such trust will be deducted from the Washington state estate tax return of the second spouse to die and, therefore, will not be subject to Washington state estate taxes. This favorable tax result will apply upon the death of the surviving spouse.

This summary is not a detailed outline of the Washington Supreme Court's decision in Bracken and merely provides a brief overview of the case and its impact on Washington state estate taxes. If you have any additional questions, please contact your attorney or one of the attorneys in our Personal Planning group for assistance.

AMERICAN TAXPAYER RELIEF ACT OF 2012 BRIEF SUMMARY

FISCAL CLIFF RESOLUTION ON TAXES

In the early hours of 2013, after several weeks of high-profile negotiations and impasses, the Senate passed the American Taxpayer Relief Act of 2012 ("Act"). The Act passed shortly thereafter it passed in the House of Representatives, and the President added his signature. The Act resolved several disputes among members of Congress and the President over tax policy just as dramatic tax increases were scheduled to take effect on January 1, 2013.

The most widely reported component of the Act is the extension of income tax cuts initially enacted in 2001 for taxpayers earning less than $400,000 (or $450,000 for taxpayers filing jointly). Several other less widely reported components of the Act, including the extension of the $5 million exemptions for federal estate, gift, and generation-skipping transfer tax, have significant estate planning implications. The following is a brief summary of the components of the Act that we expect to be most relevant for our clients.

HIGHLIGHTS OF THE ACT

- **Ordinary income tax rates**. For tax years beginning on or after January 1, 2013, the 10%, 15%, 25%, 28%, 33% and 35% tax brackets that applied in 2012 will remain in place indefinitely. A new 39.6% rate will apply to income over $400,000 for single filers and $450,000 for joint tax return filers. For the first time since 2001, these rates do not expire, and the bracket levels are indexed for inflation.

- **Capital gains and qualified dividends rates**. The Act retains the 0% tax rate on long-term capital gains and qualified dividends for income below the 25% ordinary income tax rate bracket. The 15% tax rate applies to long-term capital gains and qualified dividends for income at or above the 25% tax bracket but below the new 39.6% rate bracket. A new 20% tax rate will apply to long-term gains and qualified dividends in excess of the 39.6% rate bracket. When coupled with the 3.8% surtax on investment income enacted in prior legislation, the new marginal tax rate for long-term capital gains and qualified dividends will be 23.8% on income above the 39.6% rate bracket and 18.8% on income that is above $200,000 ($250,000 for joint filers) but below the 29.6% rate bracket.

- **Other income tax provisions**. The Act phases out the $3,800 personal exemption and limits itemized deductions for taxpayers with adjusted gross income over $250,000 ($300,000 for joint filers). The Act permanently indexes for inflation the alternative minimum tax ("AMT") exemption, avoiding the need in future years for an annual "AMT patch" to index the exemption for inflation. Effective only through 2013, the Act extended the itemized deduction for state and local sales tax in lieu of the itemized deduction for income taxes, a provision important to Washington state taxpayers, as well as favorable charitable income tax deduction treatment for certain contributions of qualified conservation easements. The opportunity for IRA participants over the age of 70 1/2 to make qualified charitable distributions of up to $100,000 and to count those distributions toward the required minimum distribution was also extended only through 2013. Special rules allow qualified charitable distributions made in early 2013 to be effective for 2012.

- **Estate tax exemption, rate, and portability**. The $5 million unified exemption for gift, estate, and generation-skipping transfer tax applicable for 2011 and 2012 are now continued indefinitely and are indexed for inflation; the exemptions have not returned to the $1 million level as many taxpayers feared. The Act also set the top transfer tax rate at 40%. Portability of a deceased spouse's unused exemption, which was first introduced in 2010, continues to be available indefinitely. Washington taxpayers should note that the legislation did not change the Washington estate tax law. The Washington estate tax exemption remains at $2 million, and spousal exemption portability is not available for state estate tax purposes as it is for federal purposes, necessitating continued trust planning for maximum state estate tax efficiency.

This summary is not a detailed outline of the changes and merely provides a brief overview of the substantial changes made by the American Taxpayer Relief Act of 2012. With the changes taking effect in 2013, now is a good time to review your estate planning documents. If you have any additional questions, please contact your attorney or one of the attorneys in our Personal Planning group for assistance.