

to their children in equal shares in like-kind trusts. When Mary dies the subtrusts for George and Nancy are created. Nancy dies twenty years later but she had much more information about her own children. Nancy's child - Tanya (Grantor's grandchild) is addicted to heroin. Based on this information, Nancy decided during her lifetime to utilize her limited power of appointment to give all of the trust assets to her non-addicted child and disinherit Tanya due to substance abuse issues. The assets are not includable in Nancy's estate for estate tax purposes.

There can be tax ramifications in the creation of power of appointments, depending on their vesting schedule, the amounts at issue, and the income and estate tax regime that then exists. Just remember that a general power of appointment includes the assets in the donee's estate for estate tax purposes. A limited power of appointment does not. Careful wording must be utilized to comply with the Internal Revenue Service requirements.

Conclusion:

In the arsenal of tools available to the sophisticated person for estate and family care planning, powers of appointment are a relatively simple method to achieve limited but useful flexibility to adjust to events and circumstances altering after the death of the Donor. Giving a person power of appointment abilities implies a great deal of trust in that donee's judgment. As a general power of appointment provides no restrictions, the limited power of appointment is generally more favorable and used more often in the planning process.