

Powers Of Appointment: A Valuable Device

Table of Contents

I.	Introduction	1
II.	Basic Federal Tax Rules for Powers of Appointment.....	2
	A. What is a Power of Appointment for Tax Purposes?	2
	B. Estate Tax Rules.....	3
	C. Gift Tax Rules	4
	D. Income Tax Rules.....	4
	E. Generation-Skipping Transfer Tax Rules	5
III.	Background on Non-Tax Aspects of Powers of Appointment	6
IV.	Non-Tax Aspects of Powers of Appointment: Definitions under UPOA	8
	A. Colorado UPOA Provisions	8
	B. Illustration	9
	C. Arrangements Constituting Powers of Appointment	10
	D. Aspects of terminology	13
	E. Other definitions	14
V.	Non-Tax Aspects of Powers of Appointment: Categories of Powers of Appointment; Miscellaneous Rules under UPOA	16
	A. Colorado UPOA Provisions	16
	B. Illustration	18
	C. General-Nongeneral Categories	18
	D. Time When Power Exercisable.....	20
	E. Exclusionary-nonexclusionary.....	21
VI.	Non-Tax Aspects of Powers of Appointment: General Principles of UPOA.....	22
VII.	Non-Tax Aspects of Powers of Appointment: Selected Issues Involving the Creation of Powers of Appointment under UPOA	25
	A. How powers created.....	25
	B. Donor’s authority to revoke or amend power	27
VIII.	Non-Tax Aspects of Powers of Appointment: Selected Issues Involving Exercise of Powers of Appointment under UPOA.....	27
	A. Requisites for Exercise	27
	B. Powerholder’s residuary clause.....	30
	C. After-acquired powers under UPOA § 303	31

D.	Substantial compliance under UPOA § 304	31
E.	Permissible appointments	32
F.	Deceased appointees.....	34
G.	Impermissible appointment	34
H.	Disposition of unappointed property	34
I.	Powerholder’s authority to revoke or amend exercise under UPOA § 314 ...	37
IX.	Non-Tax Aspects of Powers of Appointment: Creditors’ Rights under UPOA.....	38
A.	UPOA § 501	38
B.	UPOA § 502	39
C.	UPOA § 503	40
D.	UPOA § 504	41
X.	Powers of Appointment and the Rule Against Perpetuities; Federal Transfer Tax Consequences.....	43
A.	Common Law Principles	43
B.	Changes by USRAP	44
C.	Changes by RAP Repeal or Multi-Century Duration	45
D.	Federal Transfer Tax Implications	46
XI.	Possible Powers of Appointment Drafting Provisions.....	47
A.	Creation of Power of Appointment	47
B.	Exercise of Power of Appointment.....	48
APPENDIX	.....	A-1
TRUST # 1	.....	A-1
TRUST # 2	.....	A-2
TRUST # 3	.....	A-3
TRUST # 4	.....	A-4