

# The Great Wealth Transfer: Planning Priorities for Families

**2026 Year-End Estate Planning Advisory**

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Over the next two decades, an estimated $84 trillion or more is expected to pass from current generations to the next through the Great Wealth Transfer. According to UBS's Global Wealth Report 2026[1], (1) global personal wealth grew 10.8% in 2025, more than double the rate of each of the two prior years, and (2) the United States now holds 35.7% of the world's personal wealth. The United States added more than 440,000 new millionaires in 2025, and more than four million US adults now have a net worth between $5 million and $100 million. UBS's chief economist also noted that the Great Wealth Transfer is attracting political attention and that governments may target this wealth in the future to reduce the cost of debt financing.

For owners of family-owned businesses, the implications of the Great Wealth Transfer are especially profound because the family business is often the single largest concentration of their net worth. Decisions made today about succession, governance and growth will determine whether the family legacy (and fortune) endures or erodes. This is true whether owners plan to keep the business in the family or to exit the business partially or fully. Beyond corporate considerations, owners who neglect estate and tax planning risk, among other things, exposing their families to significant estate taxes. In 2026, the federal estate, gift and generation-skipping transfer (GST) tax exemption increased to $15 million per person. For owners whose business value exceeds that level, transfer tax planning remains central. Federal estate tax is generally due just nine months after death, which can force a “fire sale” of the business the owner spent a lifetime building. Whether the focus is business planning or estate planning, thoughtful planning conducted well in advance provides certainty, preserves value and optimizes outcomes.

With respect to business planning, owners generally follow one of four transition paths, each with its own set of planning considerations:

**Intergenerational succession.** This path transitions the business from the current owner to the next generation (G2) and works best when G2 is educated, motivated and eager to lead the business into the future. Its success depends on shared goals, early leadership development and clear governance. Families should have a transparent dialogue about the business and its future and agree on the “rules of the road” for business governance. Governance should be documented in clear operating or stockholders agreements, including mechanics for board composition and voting, as well as buy-sell provisions.

**Minority investment.** This path involves selling a minority stake in the business while retaining majority control. It allows an owner to take some chips off the table while bringing in growth capital, and it offers the potential for a “second bite at the apple” through a later partial or full sale. A sophisticated minority investor will require formal governance and reporting and will likely require board representation, which may necessitate an overhaul of the family business's back-office functions.

**Sale to insiders.** This path is a full sale of the business to the existing management team (for example, through a leveraged buyout) or to employees generally (for example, through an employee stock ownership plan (ESOP)). An insider sale preserves culture and continuity, aligns the team's incentives with the growth and success of the business and may offer a more streamlined diligence process. An ESOP can also offer attractive tax benefits. However, insider sales may introduce leverage that is challenging to manage after closing, and ESOPs in particular come with higher transaction costs and greater complexity.

**Third-party sale.** The final path is a bona fide sale of the business to a third-party buyer. Different types of buyers bring different pricing, deal structures and post-closing expectations, but this path allows the owner to fully transition ownership and potentially create generational wealth for the family. However, the business will then be entirely in the hands of a third party that may not share the selling family's culture or post-closing vision. In a full sale, it is also critical to understand the components of the purchase price, how the price might be reduced upon the occurrence of certain events and the owner's post-closing employment obligations.

Regardless of the transition path, the strongest wealth transfer results come from planning well before an expected liquidity event. Too often, owners begin estate planning only once a sale is being discussed, or even after a letter of intent is signed. Planning early allows transfers to be made at a lower (but appropriate) valuation than the later sale price will reflect, which shifts more value outside the owner's taxable estate.

A variety of techniques are available for wealth transfer planning. The optimal approach for an owner depends on the family's goals, the nature of the business and the expected timing of any liquidity

event. Most plans combine several techniques, chosen based on expected growth, volatility, interest rates and liquidity. Examples include:

**Recapitalization.** A common first step is a tax-free recapitalization into voting and nonvoting equity. The senior generation keeps control of the business while nonvoting interests pass to G2, or to trusts for their benefit, at values that reflect discounts for lack of control and marketability.

**Gifts.** Family business owners may also make straightforward lifetime gifts to trusts for the benefit of family members, provided the trusts grant the beneficiaries Crummey withdrawal rights. Gifts up to the federal gift tax annual exclusion amount ($19,000 per recipient in 2026) do not use any of the donor's lifetime exemption. Gifts in excess of that amount reduce the donor's lifetime gift and estate tax exemption, and once the exemption is fully used, additional gifts are subject to gift tax. As a result, gifts alone can be limited in impact in comparison to other, more sophisticated planning techniques.

**Grantor retained annuity trust (GRAT).** A GRAT can have a term as short as two years, and growth above the Internal Revenue Service (IRS) hurdle rate (the section 7520 rate) passes to the remainder beneficiaries free of gift tax. GRATs work best for assets that are volatile or expected to appreciate quickly. However, the grantor must survive the GRAT term; otherwise, the grantor's estate includes the trust assets. GRATs are also generally poorly suited to GST planning, because GST exemption ordinarily cannot be allocated to a GRAT until the end of the estate tax inclusion period (ETIP). However, in recent Private Letter Ruling 20263302, the IRS applied the exception to the ETIP rules that applies where the possibility of estate inclusion is so remote as to be negligible (less than a 5% chance), which may permit an earlier GST exemption allocation in appropriate circumstances.

**Sales to intentionally defective grantor trusts (IDGTs).** An IDGT is an irrevocable trust structured so that the IRS treats the grantor as the owner of the trust for income tax purposes, while the trust assets remain outside the grantor's gross estate for estate tax purposes. This strategy allows future business growth to pass to the next generation while the owner continues to pay the income tax.

In a typical transaction, the owner makes a seed gift to the IDGT, often at least 10% of the purchase price, and then sells nonvoting interests in the company to the IDGT, usually for a promissory note bearing interest at the applicable federal rate (AFR), other consideration or both. Because the owner and the IDGT are treated as a single taxpayer for income tax purposes, the IRS disregards the sale, and the owner recognizes no gain.

The owner remains liable for income tax on all trust income. Those tax payments are not taxable gifts, but they operate as additional tax-free transfers: each payment allows the trust assets to grow without reduction for income tax while reducing the owner's taxable estate. As a result, the trust retains all appreciation above the AFR free of transfer tax. If the tax burden becomes undesirable, the owner

generally can terminate grantor trust status, for example by releasing a substitution power under section 675(4)(C). Where sufficient gift and GST exemption is available, IDGT planning is generally preferred for multigenerational goals.

Each technique carries valuation risk. Advance planning, carefully drafted formula transfers and well-supported independent appraisals can reduce, though not eliminate, that risk.

**Planning note:** Owners should treat succession and wealth transfer as a single, coordinated plan that begins years, not months, before any sale. That means putting foundational documents and plans in place well before a sale or other transaction. Experienced counsel and advisors can help analyze a family business owner's goals and build a playbook to maximize the value of an intergenerational transfer or sale while minimizing transaction costs and taxes.

For additional guidance to help business owners navigate these issues, see Katten's comprehensive guide, The Great Wealth Transfer: Strategies for Succession, Legacy and Wealth Generation. To access the complimentary guide, click here.

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1 www.ubs.com/global/en/media/display-page-ndp/en-20260630-gwr-2026.html

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To download a PDF of the entire advisory, click here.

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