

SSG FINANCIAL GROUP

The Wealth Transfer Gap

Why a High Exemption Doesn't Eliminate the Risk— and What Business Owners
Must Do to Protect Generational Wealth

A White Paper by SSG Financial Group

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Executive Summary

In 2026, Congress made the elevated federal estate tax exemption permanent, removing the long-anticipated sunset that had driven urgency in estate planning for nearly a decade. With the unified credit now fixed at approximately \$13.99 million per individual—and effectively \$27.98 million for married couples—many business owners have understandably concluded that estate tax is no longer their problem.

For some, that conclusion is correct. For a significant number of others, it is dangerously wrong.

This white paper explains why a high exemption does not eliminate the need for wealth transfer planning, identifies the structural risks that persist regardless of the exemption level, and outlines the integrated insurance and financial planning strategies that protect generational wealth against liquidity crises, business disruption, and future legislative change.

Key Takeaway: The permanent exemption is a welcome development, but it creates a false sense of security for business owners whose estates are illiquid, growing, or concentrated in a single enterprise. The risks that destroy wealth at transfer—liquidity shortfalls, forced asset sales, and uncoordinated planning—exist independent of the exemption level.

The New Estate Tax Landscape

The Tax Cuts and Jobs Act of 2017 roughly doubled the federal estate tax exemption, raising it from approximately \$5.49 million per individual to over \$11 million (indexed for inflation). Originally scheduled to sunset after December 31, 2025, this elevated exemption was made permanent through legislation enacted in 2026. The current exemption stands at approximately \$13.99 million per individual, with annual inflation adjustments going forward.

For married couples utilizing portability—the ability for a surviving spouse to use the deceased spouse’s unused exemption—the combined transfer capacity is approximately \$27.98 million. The federal estate tax rate remains 40% on amounts exceeding the exemption.

What the Permanent Exemption Does—and Doesn’t—Solve

The permanent exemption eliminates one specific risk: the possibility that the exemption would drop to approximately \$6–7 million, pulling millions of previously “safe” estates into taxable territory. That risk is now off the table, and for estates comfortably below the threshold, it meaningfully simplifies the planning calculus.

However, the permanent exemption does not address three categories of risk that continue to drive wealth transfer failures:

1. **Estates that exceed the exemption.** A business owner with a \$30 million estate still faces approximately \$800,000 in federal estate tax liability on the amount above the combined exemption. For estates of \$50 million or more, the exposure runs into the tens of millions. The exemption is high, but it is not unlimited.
2. **Illiquid estates at any level.** Even estates below the federal exemption may face liquidity crises. State estate taxes (in the jurisdictions that impose them) can apply at much lower thresholds—some as low as \$1 million. Business succession costs, trust funding requirements, and equalization among heirs all require cash that may not exist if the estate is dominated by an illiquid operating business.
3. **Future legislative risk.** The exemption was made permanent under current law, but “permanent” in the tax code means “until Congress changes it.” Federal tax policy is subject to continuous revision. A future administration could lower the exemption, increase the rate, eliminate step-up in basis, or introduce new transfer tax mechanisms. Business owners who build their plans around today’s exemption level without hedging against change are exposed to political risk they cannot control.

The Liquidity Problem: The Risk That Never Goes Away

Of all the risks in wealth transfer, illiquidity is the most dangerous because it is the most common and the least visible. A business owner may have a \$25 million estate that falls below the combined federal exemption, yet still face a liquidity crisis at death that forces the sale of the very asset the family wanted to preserve.

How Liquidity Crises Develop

Business owners typically have 60–80% of their net worth concentrated in their operating business. The business generates income during the owner’s lifetime but may not produce immediate cash at death. Meanwhile, the estate faces a series of financial demands that arrive simultaneously:

- Federal estate taxes (if applicable), due within nine months of death
- State estate or inheritance taxes, which may apply at thresholds far below the federal exemption
- Business succession costs, including buyout obligations under a buy-sell agreement
- Trust funding requirements for surviving spouse, children, or charitable commitments
- Equalization payments to non-business heirs who are not receiving the operating company

- Administrative costs, legal fees, and final expenses

When the estate lacks sufficient liquid assets to meet these obligations, the family is forced into one of three outcomes: selling the business (often at a distressed valuation and under time pressure), borrowing against estate assets at unfavorable terms, or liquidating investments at potentially the worst time. Each of these outcomes destroys the wealth that the owner spent a lifetime building.

State Estate Taxes: The Hidden Threshold

Twelve states and the District of Columbia currently impose their own estate taxes, and six states impose inheritance taxes. Several of these jurisdictions have exemption thresholds far below the federal level. Oregon and Massachusetts, for example, impose estate taxes on estates exceeding \$1 million. New York's threshold is approximately \$6.94 million, with a "cliff" feature that eliminates the exemption entirely if the estate exceeds 105% of the threshold.

For business owners in these states, the federal exemption is largely irrelevant to their planning—the state-level exposure creates a tax and liquidity obligation that must be independently addressed.

The Five Most Common Wealth Transfer Mistakes

Even with a historically high federal exemption, wealth transfer plans fail for predictable reasons. Understanding these patterns is the first step toward avoiding them.

1. Assuming the Exemption Eliminates the Need to Plan

This is the most dangerous mistake in the current environment. The permanent exemption has created a false sense of security among business owners who believe that because their estate falls below the federal threshold, they have no exposure. They overlook state taxes, liquidity needs, business succession funding, and the possibility that their estate will grow beyond the exemption over time. A \$14 million estate today may be a \$25 million estate in fifteen years. Planning for static values in a dynamic environment is a recipe for failure.

2. Ignoring the Liquidity Problem

This remains the most destructive risk in wealth transfer. A business owner may have a \$20 million estate with zero federal estate tax liability and still leave their family in a liquidity crisis if \$16 million of it is tied up in an illiquid operating company. Buy-sell obligations, trust funding, heir equalization, and state taxes all require cash that an illiquid estate cannot generate on demand.

3. Over-Reliance on Wills and Revocable Trusts

A will directs where assets go but does nothing to fund the transfer. A revocable living trust avoids probate but provides no tax benefit and no liquidity. Business owners who treat these foundational documents as a complete plan are missing the structural and financial components that make the plan actually work.

4. Failing to Coordinate the Advisory Team

Wealth transfer planning touches estate law, tax strategy, business valuation, insurance design, and investment management. When each advisor operates independently—the attorney drafts documents, the CPA models taxes, the financial advisor manages investments—gaps emerge. The trust gets created but not properly funded. The insurance gets purchased but owned in the wrong structure. The buy-sell agreement is funded at a valuation that hasn't been updated in a decade. These coordination failures are where millions are lost.

5. Building a Plan That Cannot Adapt

The tax code is not static. The exemption is permanent today, but future Congresses can and will revisit estate tax policy. Business owners who build rigid plans around the current exemption—without incorporating instruments that adapt to changing circumstances—risk being caught unprepared by legislative changes, business growth, or shifts in family dynamics. The best plans are designed to perform well across a range of scenarios, not optimized for a single set of assumptions.

The Integrated Solution: Insurance + Financial Planning

Effective wealth transfer is not a single transaction—it is an integrated strategy that combines legal structures, tax planning, and financial instruments designed to create liquidity, manage risk, and preserve optionality regardless of what the tax code does next. At SSG Financial Group, we build wealth transfer plans on three pillars: tax-efficient structuring, liquidity creation, and multigenerational governance.

Irrevocable Life Insurance Trusts (ILITs)

An ILIT is a trust that owns a life insurance policy on the grantor's life. Because the trust—not the insured individual—owns the policy, the death benefit is excluded from the insured's taxable estate. This tool serves two critical functions simultaneously: it creates guaranteed liquidity at the moment of death, and it delivers that liquidity outside the estate tax system.

How it works: The business owner creates an irrevocable trust and makes annual gifts to the trust (utilizing the annual gift tax exclusion or a portion of the lifetime exemption). The trust uses these gifts to pay premiums on a life insurance policy. At death, the death benefit is paid to the trust—outside the taxable estate—and distributed to beneficiaries according to the trust's terms.

Why it matters even with a high exemption: For estates that exceed the exemption, an ILIT provides the tax-free cash to pay the estate tax bill without forced asset sales. For estates below the exemption, an ILIT provides the liquidity to fund buy-sell obligations, equalize inheritances, cover state taxes, and ensure the business can operate without disruption during transition. The ILIT is valuable in both scenarios because the liquidity problem exists independently of the federal tax question.

Survivorship Life Insurance for Estate Liquidity

For married couples, survivorship (second-to-die) life insurance is particularly efficient. The policy pays out only after both spouses have died—which is precisely when the estate tax liability crystallizes and when the business succession and wealth distribution events occur. Premiums are typically lower than individual policies because the insured event (second death) is statistically further out. When owned by an ILIT, the entire death benefit arrives tax-free and estate-tax-free.

Strategic Gifting and Trust Funding

Even without sunset pressure, strategic gifting remains a powerful tool. Transferring appreciating assets—such as discounted interests in a family business or holding company—out of the estate removes both the current value and all future appreciation from the taxable estate. For business owners whose enterprises are growing, this is how they prevent their estate from “outgrowing” the exemption over time.

Grantor trusts are especially effective in this context. Because the grantor continues to pay income tax on trust assets, the trust grows without tax drag—effectively an additional tax-free gift to beneficiaries. Combined with valuation discounts on transferred business interests, this strategy can leverage the exemption far beyond its face value.

Dynasty Trusts and Multigenerational Planning

For families seeking to preserve wealth across multiple generations, dynasty trusts—which can exist in perpetuity in certain jurisdictions—allow assets to grow and compound outside the estate tax system indefinitely. When funded with life insurance through an ILIT, a dynasty trust can create a self-replenishing pool of wealth that supports future generations without triggering additional transfer taxes. This structure also provides a hedge against future legislative changes: assets already in a properly designed dynasty trust are protected even if the exemption is later reduced.

Hedging Against Legislative Change

The permanent exemption is a product of current political consensus, not a constitutional guarantee. Throughout the last thirty years, the federal estate tax exemption has been \$600,000 (1997), \$1 million (2002), \$3.5 million (2009), temporarily repealed (2010), \$5 million (2011),

and now approximately \$14 million (2026). Business owners who assume today's level will persist indefinitely are ignoring the historical pattern.

The most resilient wealth transfer plans are built to perform well across a range of scenarios: current law, a reduced exemption, an increased rate, or the elimination of step-up in basis. Insurance-funded ILITs, dynasty trusts, and strategic gifting all provide this kind of structural flexibility because they remove assets from the taxable estate permanently—regardless of what Congress does next.

Hypothetical Scenario: The Harmon Family

The following scenario is hypothetical and provided for illustrative purposes only. It does not represent any actual client of SSG Financial Group. Individual results will vary based on specific circumstances, policy terms, and applicable law.

Background

David and Margaret Harmon, both age 62, own a regional manufacturing business valued at \$18 million. Their total estate, including the business, personal investments, and real estate, is approximately \$28 million. They have three adult children, one of whom (Sarah) is active in the business. The other two children (James and Rachel) have careers outside the company.

Their existing plan consists of a basic revocable living trust, individual wills, and a \$1 million term life insurance policy owned personally by David. They have not made significant lifetime gifts. They reside in a state with no state estate tax.

The Problem

Under current law, the Harmons' combined federal exemption is approximately \$27.98 million. Their \$28 million estate is essentially at the threshold, meaning even modest growth in the business's value will push them into taxable territory. But the more immediate problems are structural:

- **Liquidity:** Approximately 64% of the estate is the illiquid operating business. The family has roughly \$3 million in liquid assets—insufficient to cover a potential estate tax bill, fund Sarah's buyout of her siblings' interests, and equalize inheritances.
- **Equalization:** David and Margaret want Sarah to inherit the business, but they want all three children to receive roughly equal value. Without liquidity to offset the business's value, the only option is to give all three children ownership in the company—a recipe for conflict between an operating heir and two passive shareholders.

- **Growth risk:** The business has been growing at approximately 6–8% annually. At that rate, the estate could be worth \$40–45 million within a decade, creating \$5–7 million in federal estate tax liability that doesn't exist today.
- **Insurance gap:** The existing \$1 million term policy is personally owned (included in the taxable estate), inadequate in amount, and will expire before the Harmons' projected life expectancy.

The Solution

Working with their attorney and CPA, SSG Financial Group helped the Harmons implement a coordinated strategy addressing both immediate liquidity and long-term growth risk:

4. **Established an ILIT with a \$7 million survivorship life insurance policy.** Annual premiums are funded through gifts to the trust. The \$7 million death benefit provides the liquidity to pay estate taxes on growth above the exemption, fund the equalization payments to James and Rachel, and provide working capital for the business during transition—all outside the taxable estate.
5. **Transferred a 30% non-voting interest in the business to a grantor trust.** Valued at approximately \$4.3 million after applicable valuation discounts, this gift removes the transferred interests—and all future appreciation on them—from the taxable estate. The Harmons used a portion of their lifetime exemption, locking in the current high threshold.
6. **Restructured the existing term policy.** Ownership was transferred to the ILIT (with awareness of the three-year lookback rule) and supplemented by the permanent survivorship coverage.
7. **Aligned the estate plan, buy-sell agreement, and insurance structure.** The buy-sell agreement was updated to reflect current valuation methodology, funded by a cross-purchase arrangement using the ILIT, and synchronized with the trust documents to ensure Sarah receives the business while James and Rachel receive equivalent value through the trust and insurance proceeds.

The Outcome

Before Planning	After Planning
Estate growing toward taxable territory with no mitigation	Appreciating business interests removed from estate via grantor trust
Liquidity: ~\$3M cash for a \$28M estate	Liquidity: \$7M ILIT death benefit + \$3M existing cash, all outside estate
Heir equalization impossible without splitting business ownership	Sarah inherits business; James and Rachel receive equivalent value via trust/insurance
\$1M term policy in estate, expiring before need	Permanent survivorship coverage outside estate, sized for projected need

No hedge against future exemption reduction	Dynasty trust + ILIT structure protects against legislative change
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The Harmon family’s plan is designed to work under current law and to remain effective if the law changes. It addresses the liquidity gap, the equalization problem, the growth risk, and the legislative uncertainty—not by predicting the future, but by building a structure that adapts to it.

The Role of the Advisory Team

Wealth transfer planning is inherently multidisciplinary. The most effective outcomes occur when the business owner’s attorney, CPA, financial advisor, and insurance specialist operate as a coordinated team rather than in isolation.

SSG Financial Group positions itself as the integrator within this advisory ecosystem. We do not replace the estate attorney or the tax advisor—we work alongside them to ensure that the insurance and financial planning components are precisely calibrated to the legal and tax structure. This collaborative approach eliminates the gaps that cause plans to fail.

For CPAs and attorneys advising business owners on estate planning, SSG Financial Group offers a resource: the ability to model scenarios across multiple exemption levels, illustrate funding strategies under various growth assumptions, and provide the insurance expertise needed to complete the plan. We welcome the opportunity to support your clients’ planning as a member of their advisory team.

Conclusion: Permanent Doesn’t Mean Protected

The permanent exemption is good news. It removes one source of uncertainty and simplifies planning for estates that are comfortably below the threshold. But for business owners with illiquid estates, growing enterprises, or wealth that may eventually exceed the exemption, the permanent exemption changes the nature of the risk—it does not eliminate it.

The business owner who says “I don’t need to plan because the exemption is high” is making the same mistake as the business owner who says “I don’t need insurance because I’m healthy.” Both statements may be true today. Neither addresses what happens tomorrow.

The most resilient wealth transfer plans are built on liquidity, flexibility, and coordination—not on the assumption that today’s tax law will persist unchanged.

SSG Financial Group provides integrated insurance and financial planning solutions for business owners, high-net-worth families, and their advisory teams.

Schedule a complimentary 20-minute consultation: [Book Your Consultation](#)
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