



BUSINESS SUCCESSION PLANNING

The cost of procrastination

How putting off your exit plan can cost your heirs millions

Death and taxes are the only guarantees. And for business owners, the timing of one determines the size of the other. Estate taxes don't arrive with a notice in the mail; they show up when your life's work changes hands. And the truth is, many business owners don't get to choose when that happens. A sudden illness, accident or unexpected event can force a transition long before anyone is ready.

For business owners with concentrated, illiquid wealth that compounds at significant rates, the cost of procrastination isn't theoretical. It's measurable, substantial, and entirely avoidable.

With exemptions at historic highs, the opportunity to transfer wealth tax-efficiently has never been better — but it still requires planning.

 PNC PRIVATE BANK

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The value of early planning

If your business grows at 10 percent every year, it will approximately double in value every seven to eight years. That's excellent for building wealth — but there's a catch. As your wealth grows, so does your estate tax liability. Without planning, a larger percentage of what you've built goes to the government rather than your heirs.

Let's look at a hypothetical scenario to illustrate the value of early planning.

The business owner:

- Who: Age 55, owns 100 percent of a business worth \$25 million
- Expected growth: 10 percent annually
- Life expectancy: Age 80
- Assumed federal estate tax rate: 40%

The two approaches:

- **Plan 1:** No transfer tax planning and the business owner holds the business until death at age 80.
- **Plan 2:** In 2026, the business owner transfers \$15 million of business interests to an irrevocable trust using the current basic exclusion amount. The estate retains the remaining \$10 million.

The outcomes:

- **Plan 1:** The estate pays tax on \$302.7 million — the full appreciated value of the business — and the **heirs receive \$192.1 million.**
- **Plan 2:** The \$15 million put in trust compounds to \$178.8 million — which is excluded from the taxable estate — and the **heirs receive \$215 million.**
- By acting in 2026, the business owner's heirs pay substantially less in estate taxes and receive **\$23 million more** in total estate value.*

The earlier you start, the more your heirs benefit. Every year that you delay could cost them millions.

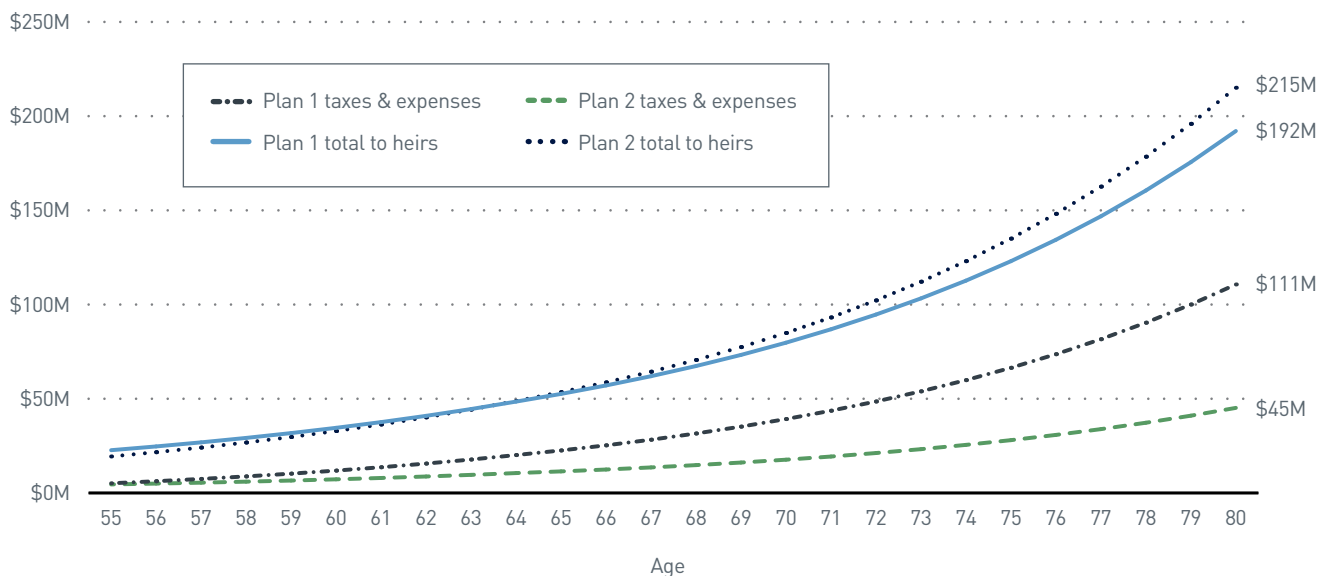


*The One Big Beautiful Bill Act made the current estate tax exclusion permanent, but there is no guarantee that the current federal estate tax exclusion, or any estate tax exclusion, will continue in the future. Therefore, it is possible that tax would be due on the entire value of the estate.

This hypothetical is for illustrative purposes only. Tax calculations have been simplified for illustrative purposes and do not take into account any tax attributes that may affect a taxpayer's particular situation (for example state and local taxes, marital status, exemptions or other withholdings, such as flexible spending accounts). PNC does not provide tax advice. Consult with your tax and legal advisors regarding your individual situation.

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Year by Year: The \$23 Million Difference



Why early planning works

The chart above shows the amounts passing to the heirs under Plan 1 and Plan 2 and the federal estate tax saved by planning today. Three factors work together to create the \$23 million difference.

1. Assets can grow outside the estate

The \$15 million transferred in 2026 becomes \$178.8 million million by age 80, and that growth is never taxed.

2. Historic permanent exemption levels

Congress recently passed the One Big Beautiful Bill Act, increasing the estate tax exemption to \$15 million per individual (\$30 million per couple) starting January 1, 2026. This represents an unprecedented opportunity to transfer wealth at historically high exemption levels that won't sunset. Business owners can plan with confidence that these amounts won't be cut in half by future legislation.

3. Time amplifies everything

Every year you delay costs heirs millions. Using the Plan 2 strategy in the illustration above as an example, waiting five years would reduce the total transferred to heirs at Grantor's age 80 by \$80 million. Wait 10 years, and that figure would be reduced by \$130.1 million.

Assumptions: Starting business value: \$25,000,000; annual growth rate: 10%; Federal estate tax rate 40%. In Plan 2, \$15,000,000 is transferred to an irrevocable trust at age 55 and \$10,000,000 is retained by the estate. State estate and inheritance taxes are not considered. This illustration is hypothetical and for illustration purposes and does not reflect any actual business, company or corporation.

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Potential downsides

Irrevocable trusts can be a powerful estate planning tool for business owners that want to maximize the value of the business assets they leave to their beneficiaries, but there are trade-offs.

Placing business interests into an irrevocable trust means permanently giving up ownership and direct control, so business owners should think carefully about what business assets they choose to put in trust. Additionally, assets gifted to an irrevocable trust to mitigate estate tax do not receive a “step-up” in basis to fair market value when the Grantor dies. That means the beneficiaries may face high capital gains taxes on the appreciation that occurred during the owner’s lifetime when they sell the assets.

How to get started

Your PNC Private Bank team includes a wealth strategist who can review your plans, suggest ways to mitigate tax and illustrate how those plans can impact your family’s wealth.

To start the conversation, contact your PNC representative.

Beyond the basics

Using your gift and estate tax exclusion is a good start, but sophisticated planning combines multiple elements to maximize what passes to your heirs, including:

- **Irrevocable Trust:** Transfer assets out of your estate permanently — removing future appreciation from estate tax exposure
- **Spousal Lifetime Access Trusts (SLATs):** Remove assets from your estate while maintaining indirect access
- **Grantor Retained Annuity Trusts (GRATs):** Transfer appreciation to heirs while retaining income
- **Charitable Lead Trusts (CLTs):** Support causes you care about while passing assets to heirs at reduced tax cost
- **Life insurance:** Replace estate tax liability with tax-free death benefits



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