

A Dallas Manufacturing CEO Became a Working Interest Owner 90 Days Post-Exit

An Illustrative Case Study on Converting Post-Exit Tax Exposure Into Direct Energy Participation

- ❏ This case study presents an illustrative, composite participant profile built from common patterns observed among middle-market manufacturing founders following a business sale. It does not describe an actual named Summit Ventures participant, transaction, or outcome. All figures and mechanisms are illustrative and intended for educational purposes only. Readers should consult a qualified tax professional and financial advisor before making any capital allocation decision.

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Case Classification & At-a-Glance Summary

Case Type

Illustrative composite profile, built for educational purposes

ICP Segment

ICP02 — Exiting and Post-Exit Founders, Active CEOs and Operators (Pre-Liquidity), PE-Backed Operators and Recapitalized Founders

Industry

Middle-market industrial manufacturing, Dallas-Fort Worth metro

Transaction Type

Full asset sale of a privately held manufacturing company

Decision Window

90 days following close

Structure Evaluated

Direct working interest ownership in producing oil and gas assets through an entrepreneurial joint venture, with intangible drilling cost (IDC) treatment considered under IRC Section 263(c)

Funnel Stage

Consideration — intended to help readers evaluate approaches rather than finalize a decision

Participant Profile, Trigger & Situation

The composite participant is a 54-year-old founder and CEO of a precision components manufacturer headquartered in the Dallas-Fort Worth metroplex, generating in the range of 2 million to 50 million dollars in annual revenue prior to sale, consistent with the broader ICP02 operator and founder segment. After 19 years building the company, he completed a full asset sale to a strategic acquirer.

Like many founders in this position, the majority of his net worth had been concentrated in the operating business itself. One widely cited wealth management framework defines business owner concentration risk as the condition where 80 to 90 percent of a founder's net worth is tied to a single illiquid asset, the business itself. A separate analysis citing Exit Planning Institute research places the figure at 70 to 80 percent of most owners' wealth being wrapped up in their company at the point of sale. Closing the transaction did not resolve this concentration so much as convert it into a different problem: a large, liquid sum now sitting in a bank account, subject to federal tax exposure and awaiting a redeployment decision.

Because the transaction was structured as an asset sale rather than a stock sale, a meaningful portion of proceeds was allocated to categories that generate ordinary income tax treatment, such as depreciation recapture, rather than being taxed uniformly at long-term capital gains rates. The remaining gain was subject to 2026 long-term capital gains brackets, which under IRS Revenue Procedure 2025-32 apply a 20 percent top federal rate above 545,500 dollars of taxable income for single filers, layered with the 3.8 percent Net Investment Income Tax under IRC Section 1411. Because Texas imposes no state income tax, the participant's effective federal exposure on the capital gains portion stacked to approximately 23.8 percent.

19

Years Building

Years the founder operated the business before completing the full asset sale

80%

Wealth Concentration

Typical share of a founder's net worth tied to a single illiquid business asset at point of sale

23.8%

Federal Exposure

Effective federal rate on capital gains portion (20% top rate + 3.8% NIIT), with no Texas state income tax

90

Day Window

Intentional evaluation period built before committing capital to any new structure

Challenge & Decision Criteria

The core challenge was not simply reducing a single year's tax bill. It was a broader capital allocation question with several interlocking variables:

1. Timing Pressure vs. Patience Cerulli Associates research, cited in a 2026 wealth management guide, found that 68 percent of business sellers who deployed proceeds within 30 days of closing later reported regretting the speed of that decision. The participant intentionally built a 90-day evaluation window before committing capital to any new structure.	2. Concentration vs. Diversification Having just exited one concentrated, illiquid, operationally demanding asset, the goal was not to immediately re-concentrate capital into a second one, while still wanting direct, tangible asset exposure rather than purely paper instruments.	3. Active Income Offset vs. Passive Tax Treatment As an operator accustomed to materially participating in a business, he wanted to understand which structures could offset active, ordinary income, as opposed to structures whose deductions are limited to offsetting income the tax code classifies as passive.
4. Governance and Transparency Having operated a business with direct management control for nearly two decades, a structure requiring full relinquishment of visibility into operations was a poor cultural fit regardless of its tax characteristics.	5. State and Entity Structuring Residency and entity decisions made immediately after a sale can shift after-tax proceeds meaningfully, with one analysis estimating state residency planning alone can shift after-tax proceeds by 8 to 15 percent of gross sale value — part of why the 90-day window was spent on advisor coordination rather than rapid redeployment.	

Goals for the 90-Day Evaluation Period

Working alongside his CPA and estate counsel, the participant defined three explicit goals for the 90-day evaluation period:

Goal 1: Statutory Tax Offset

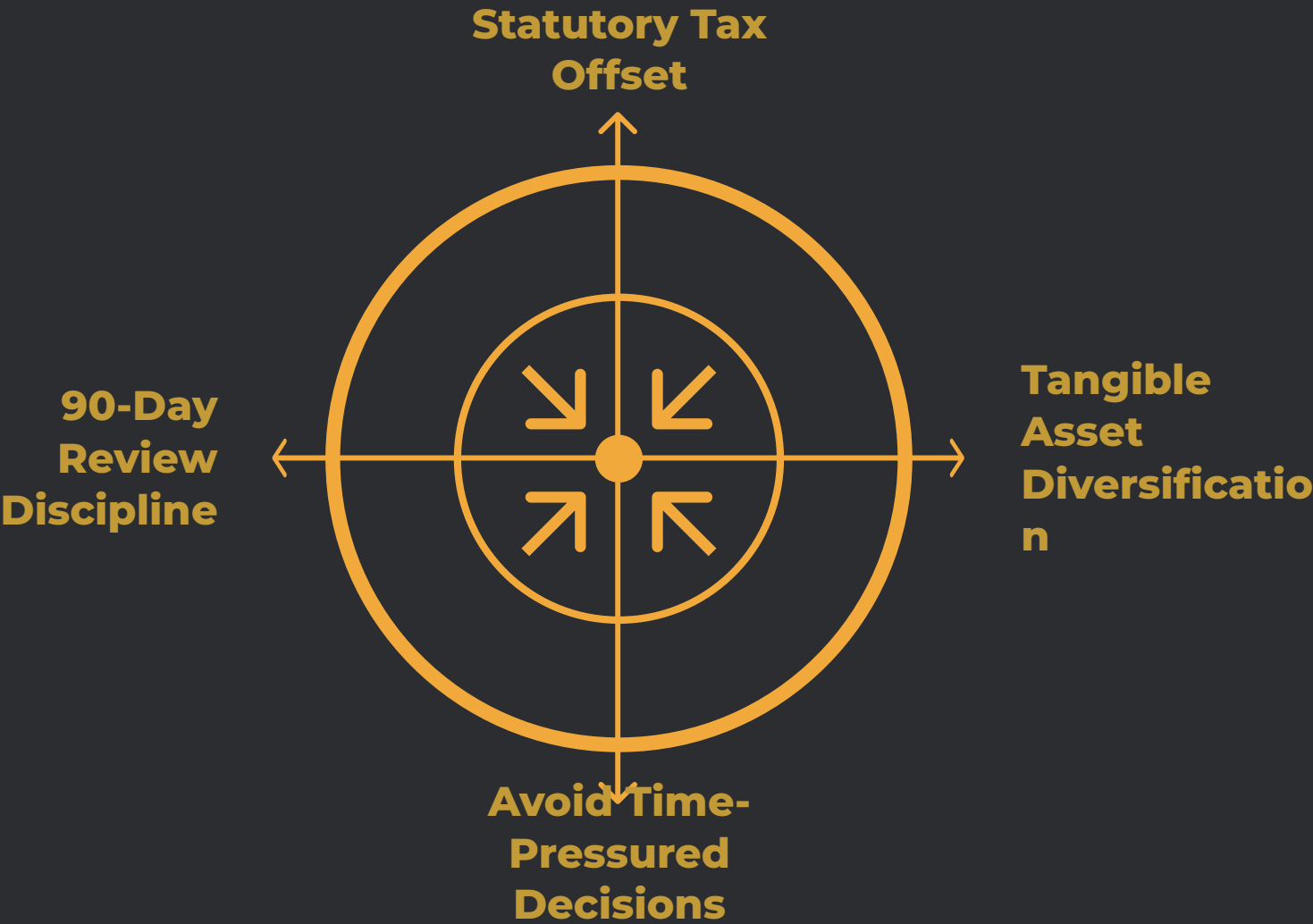
Identify a capital deployment approach that could offset a portion of the ordinary-income-classified proceeds from the sale, grounded in existing statutory tax code rather than an aggressive or novel interpretation.

Goal 2: Tangible Asset Diversification

Diversify a portion of post-exit capital into a tangible, operating asset class uncorrelated to manufacturing, while preserving direct participation and reporting visibility rather than a fully passive ownership position.

Goal 3: Avoid Time-Pressured Decisions

Avoid a decision made under time pressure, consistent with the documented pattern of seller regret associated with rapid 30-day redeployment.



Solution: Evaluating Direct Working Interest Ownership

During the advisor-coordinated review, tax counsel introduced direct working interest ownership in producing oil and gas assets as one structure worth evaluating, specifically because of how the tax code treats intangible drilling costs (IDC) under IRC Section 263(c) and Treasury Regulation 1.612-4.

A working interest holder, defined in the regulation as one who holds a working or operating interest in a well, either as a fee owner or under a lease or similar contractual arrangement, may elect to expense intangible drilling costs in the year incurred rather than capitalizing them. Intangible costs generally include the non-salvageable components of drilling, such as labor, fuel, drilling mud, and site preparation. Tangible costs, including casing and wellhead equipment, retain salvage value and are instead capitalized and depreciated, typically under a 7-year MACRS schedule. Depending on the well's authorization for expenditure, entity structure, and the individual's circumstances, IDC treatment can allow for up to 100 percent of the qualifying intangible cost component to be expensed in the year capital is deployed, though the applicable percentage, structure, and timing depend entirely on the specific well program, the participant's full tax position, and the guidance of a qualified tax professional. This is a mechanics explanation, not a projection of outcome.

A second mechanism was equally relevant to the goal of offsetting active income rather than passive-classified income. IRC Section 469(c)(3)(A) provides a specific exception for working interests in oil and gas properties: a working interest held directly, or through an entity form that does not limit the holder's liability (a general partnership interest, as distinct from a liability-limited LP or LLC interest), is not automatically subject to the passive activity loss limitations that apply to most other pass-through income classified as passive under the tax code. This structural distinction was the specific feature differentiating this approach from real estate or fund-style passive structures also under review, and the reason advisors spent considerable time confirming how any prospective structure would actually be documented and operated.

Two additional statutory considerations were part of the same review. IRC Section 465 imposes an at-risk limitation, meaning deductions generally cannot exceed the amount economically at risk. And IRC Section 57(a)(2) addresses an Alternative Minimum Tax interaction: excess intangible drilling costs can become an AMT preference item once they exceed 65 percent of net oil, gas, and geothermal income, though independent producers may qualify for a further exception under Section 57(a)(2)(E), subject to a separate 40 percent of AMTI cap. These provisions are precisely why professional tax guidance, not generic calculators, is essential before any capital contribution decision.



IRC § 263(c)

IDC election — current-year expensing of intangible drilling costs



IRC § 469(c)(3)(A)

Working interest exception — preserves active income offset eligibility



IRC § 465

At-risk limitation — deductions bounded by amounts economically at risk



IRC § 57(a)(2)

AMT interaction — excess IDC preference threshold and independent producer exception

Implementation: The Five-Step Sequence

Having reviewed the statutory framework, the participant structured his evaluation and eventual participation around the following sequence:

1 **Advisor-Led Technical Review**

His CPA and a tax attorney specializing in oil and gas structures reviewed the entrepreneurial joint venture documentation, confirming entity form and direct holding structure consistent with the IRC 469(c)(3)(A) exception.

2 **Entity Structuring Decision**

He chose to hold his working interest position directly rather than through a liability-limited vehicle, preserving eligibility for the active-income offset exception.

3 **Timing Alignment with the AFE**

Economic performance rules under IRC Section 461(h) include an exception allowing a contribution made before year-end to be treated as incurred for drilling commencing within 90 days, so advisors coordinated contribution timing with the operator's AFE and drilling schedule.

4 **Allocation Sizing Relative to Total Post-Exit Capital**

Rather than redeploying a disproportionate share of proceeds into a single working interest position, the contribution was sized as one component of a broader post-exit allocation that also included more liquid, diversified holdings, directly addressing the original concentration concern rather than relocating it.

5 **Governance and Reporting Review**

As an active JV member, he reviewed the operating agreement's governance rights and reporting cadence before committing capital, since operational transparency was an explicit decision criterion.

Explanation & Outcome (Illustrative)

In this composite scenario, the capital contribution was applied toward a proportional share of a producing well program's AFE, with the intangible cost component eligible for current-year expensing under the IDC election described above, and the tangible cost component capitalized for depreciation. Because the working interest was held directly, the structure preserved eligibility for the IRC 469(c)(3)(A) exception, meaning deductions were not automatically limited to offsetting only income the tax code classifies as passive.

It is important to state plainly what this case study does not claim. It does not state a specific dollar amount of tax liability eliminated, a specific percentage of capital converted into deductions, or a projected rate of return. Any such figures depend entirely on the specific well's AFE, the participant's full tax position, prevailing commodity economics, and the applicable tax year's rules, and would need individual modeling by a qualified tax professional rather than generalization in an educational case study.

Broader Market Context

What can be stated factually is the broader market context:

10.6M Jobs

Supported by the U.S. oil and natural gas industry in 2023

\$2.1T

Contributed to the U.S. economy by the oil and gas industry in 2023

13.5M bbl/day

Record U.S. crude oil production reached in December 2024

122.5 Bcf/day

EIA projected marketed natural gas production average for 2026, surpassing the prior record of 118.5 Bcf/day set in 2025

❏ These figures describe sector scale and production trends; they are not a representation of returns available to any specific working interest position.

"After 19 years running one company, I was not interested in trading one concentrated, illiquid position for another. What made direct working interest ownership worth a serious look was that it is still an operating asset, with governance rights and real reporting, not a black box. My CPA and I spent 90 days making sure the structure actually preserved the active-income treatment we were looking for before any capital moved."

— Composite statement representing the type of reasoning observed among similarly situated post-exit founders. Not attributed to an actual individual or Summit Ventures participant.

Illustrative Mechanics Summary

The table below reflects statutory mechanisms and structural decision points only. It does not present a contribution amount, deduction amount, or return outcome, consistent with this case study's educational and illustrative purpose.

Decision Factor	Statutory or Structural Mechanism Applied	Purpose in This Case
Ordinary-income exposure from asset-sale proceeds	IRC Section 263(c) and Treas. Reg. 1.612-4 IDC election	Current-year expensing consideration for the intangible cost component of a direct capital contribution
Active versus passive income classification	IRC Section 469(c)(3)(A) working interest exception	Preserves potential offset against active income when held directly or in an unlimited-liability entity form
Deduction ceiling relative to capital at risk	IRC Section 465 at-risk limitation	Confirms deductions are bounded by amounts economically at risk
Alternative Minimum Tax interaction	IRC Section 57(a)(2)(A) and 57(a)(2)(E)	Identifies the AMT preference threshold and independent producer exception relevant to excess IDC
Timing of capital contribution relative to drilling start	IRC Section 461(h) 90-day economic performance exception	Aligns contribution timing with the operator's AFE and drilling schedule
Post-production income treatment	IRC Section 611 and 613A percentage depletion	Relevant once the well reaches production, subject to independent producer qualification
Tangible equipment cost recovery	7-year MACRS depreciation schedule	Applies to casing, wellhead equipment, and other salvage-value components of the AFE

Key Takeaways, Evaluation Questions & Closing Perspective

Assumptions

This case study relies on explicit assumptions that should be treated as illustrative rather than universal:

- The participant materially participated in a business prior to exit and had ordinary, active income exposure from an asset-sale structure — a profile common to, but not universal among, ICP02 founders.
- The working interest was held directly or through an entity form that does not limit liability, the specific condition required to preserve the IRC 469(c)(3)(A) active-income exception. A liability-limited LP or LLC interest in the same well would not automatically carry the same treatment.
- All tax outcomes depend on the participant's full individual tax position, the specific well's AFE and geology, and professional tax guidance, and will vary by participant, well, and tax year.

→ **Reframe Post-Exit Cash as a Concentration Risk**

A business exit resolves wealth concentration in one sense while frequently recreating it in another: a large, un-deployed sum awaiting a decision. Treating the post-exit cash itself as a temporary concentration risk — not just the prior business — is a useful reframe.

→ **Entity Structure Determines Income Classification**

Entity structure, not just the underlying asset class, determines whether a working interest position can offset active income or only income the tax code classifies as passive. This is a legal and structural question to confirm with counsel before capital moves.

→ **Timing Discipline Is Risk Management**

The documented pattern of seller regret associated with rapid 30-day redeployment suggests a structured 60 to 90-day advisor review window is itself a risk management decision.

→ **Governance Rights Are a Legitimate Criterion**

Governance and reporting rights are a legitimate evaluation criterion for operators used to direct management control — not an afterthought to tax mechanics.

Questions for Evaluation

Founders and operators considering a similar evaluation should work through the following with their own advisors:

- Was my business sale structured as an asset sale or a stock sale, and how does that affect the character of my proceeds?
- What portion of my post-exit tax exposure is tied to income the tax code would treat as active versus passive, and does that distinction matter for the structures I am evaluating?
- If considering a working interest position, will it be held directly or through an entity that limits my liability, and have I confirmed with counsel how that affects eligibility for the IRC 469(c)(3)(A) exception?
- How does the timing of any capital contribution align with IRC Section 461(h) economic performance rules and the operator's actual drilling schedule?
- What governance rights, reporting cadence, and operational transparency does the specific entrepreneurial joint venture structure provide, and does that match how actively I want to remain engaged?
- Have I sized any single capital allocation against my full post-exit balance sheet, so I am not simply recreating the concentration risk I just exited?

The decision this composite participant faced in the 90 days after his exit is a familiar one across ICP02: a founder with real operating discipline, sudden liquidity, and a tax code that offers specific, statutorily grounded mechanisms for active business participants willing to do the structural work correctly. Direct working interest ownership is not a universal answer, and its tax treatment depends entirely on how the position is structured, held, and timed. What this case illustrates is the value of using the 90-day post-exit window for structural evaluation, with tax counsel and operating transparency driving the decision, rather than treating redeployment as a race against the calendar. Readers evaluating a comparable transition are encouraged to bring the questions above to their own CPA and legal counsel as a starting point for that conversation.

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Start Your Evaluation

Sources and References

[1] Modern Wealth, "The Owners I Worry About Have It All in One Company," business owner concentration risk defined as 80 to 90 percent of net worth tied to a single illiquid asset.

[2] Harford Financial Group, citing Exit Planning Institute research, 70 to 80 percent of most business owners' wealth concentrated in their company.

[3] Wealth Enhancement Group, "Preserve Wealth After Selling a Business," asset sale versus stock sale ordinary income and capital gains distinction.

[4] ustax.tools, 2026 long-term capital gains brackets per IRS Revenue Procedure 2025-32, and Net Investment Income Tax stacking under IRC Section 1411.

[5] WalletGrower, state-by-state capital gains comparison, Texas effective federal and state combined rate.

[6] CT Acquisitions, "Wealth Management After a Business Sale: 2026 Guide," citing Cerulli Associates research on 30-day redeployment regret and state residency tax planning impact.

[7] Cornell Legal Information Institute, 26 U.S.C. Section 263(c) and Treasury Regulation 1.612-4, intangible drilling cost election mechanics and statutory operator definition.

[8] AE Tax Advisors and Anchor1031, oil and gas working interest and intangible drilling cost educational resources, including IRC Section 461(h) economic performance exception and 7-year MACRS tangible cost treatment.

[9] Cornell Legal Information Institute, 26 U.S.C. Section 469(c)(3)(A), working interest passive activity loss exception.

[10] 26 U.S.C. Section 465, at-risk limitation; 26 U.S.C. Section 57(a)(2)(A) and 57(a)(2)(E), Alternative Minimum Tax preference treatment for excess intangible drilling costs.

[11] American Petroleum Institute, "Industry Explained," 2023 jobs and economic contribution data and December 2024 crude oil production record; U.S. Energy Information Administration, 2026 natural gas production outlook.

[12] Wiss, "Wealth Management for Business Owners After a Sale," 12-month post-liquidity-event wealth erosion window.