

A man in a dark suit and glasses is seated at a desk, writing on a document with a pen. The desk is cluttered with papers, a pen holder containing several pens, and a dark mug. In the background, a city skyline is visible through a large window, with a prominent skyscraper resembling the Empire State Building. The scene is dimly lit, suggesting an evening or night setting.

A Practical Guide to Deploying Exit Proceeds, Managing Concentration Risk, and Evaluating Tax-Efficient Capital Allocation

What business owners do with capital after the sale — a framework for the decisions that matter most in the first twelve months.

EXIT PLANNING

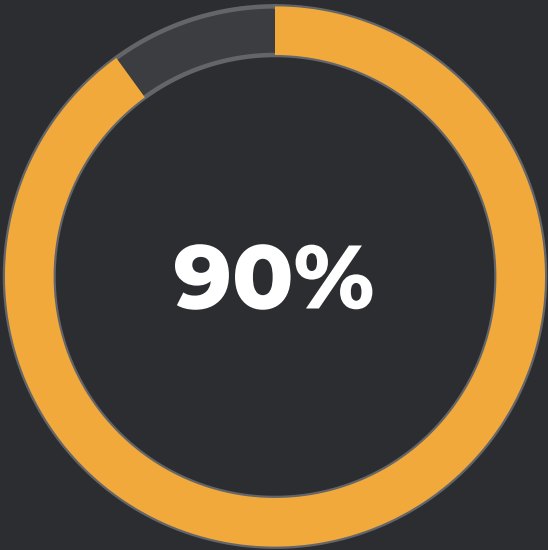
TAX STRATEGY

CAPITAL DEPLOYMENT

Introduction

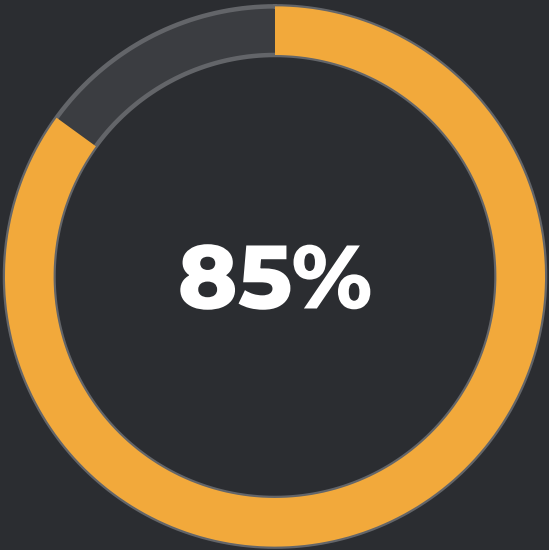
Closing a sale, completing a recapitalization, or taking a large owner distribution is a milestone most founders spend fifteen or twenty years working toward. It is also, for most operators, the first time they have ever managed a large pool of liquid capital that is not reinvested directly back into a business they control day to day.

Industry research on post-sale wealth management consistently points to the same pattern: a large share of an owner's net worth sits inside a single operating company right up until closing. Marshall Financial Group estimates that roughly 90 percent of an owner's net worth is typically locked inside the business before a sale, and Modern Wealth places the figure in the 80 to 90 percent range. Harford Financial Group, citing the Exit Planning Institute, puts the number at 70 to 80 percent. Whatever the precise figure for a given owner, the underlying condition is the same: concentration risk does not disappear at closing. It simply changes form, from operating risk inside one company to allocation risk across whatever the owner does next with the proceeds.



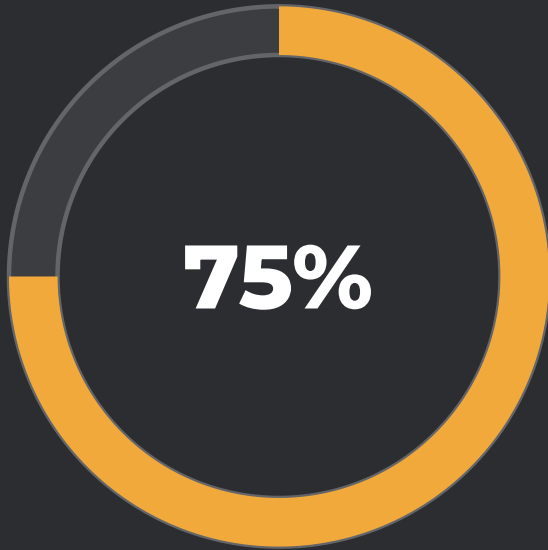
Marshall Financial Group

Estimated share of owner net worth locked inside the business before a sale



Modern Wealth

Places the figure in the 80 to 90 percent range for typical business owners



Exit Planning Institute

Harford Financial Group cites 70 to 80 percent wealth concentration in the business

This guide is written for exiting and post-exit founders, active CEOs and operators who have not yet transacted, and PE-backed operators who have taken a recapitalization. It walks through how business owners typically sequence capital after a liquidity event, the tax mechanics that shape how much of the headline sale price is actually available to deploy, and where structured working interest ownership in operating energy assets fits as one allocation among several a business owner and their advisors may evaluate.

What the Reader Will Learn

This guide explains the critical knowledge gaps that most business owners encounter in the months surrounding a liquidity event — and provides a structured framework for navigating each one.

1	The Headline vs. Deployable Gap Why the gap between a headline sale price and deployable, after-tax capital is often larger than owners expect
2	Transaction Structure & Tax Outcomes How the legal structure of a transaction — asset sale, stock sale, or recapitalization — changes the tax outcome
3	Capital Deployment Sequencing A practical framework for sequencing capital deployment in the months following a liquidity event
4	IRC Section 263(c) & Working Interest How IRC Section 263(c) and the working interest tax structure function as one tool among several for addressing concentration and tax exposure
5	Common Sequencing Mistakes Common sequencing mistakes business owners make in the first year after a sale
6	Advisor Questions Questions worth raising with a CPA or tax attorney before committing capital

Situation Overview: What Actually Happens Between Signing and Deployable Capital

Business owners often anchor on the headline transaction value quoted in a letter of intent. That number and the capital an owner actually has available to deploy are rarely the same.

Morgan Stanley's research on post-sale financial planning finds that seven in ten owners rely directly on sale proceeds to fund their post-exit lifestyle, which makes understanding the true deployable figure a planning priority, not an afterthought. Sofer Advisors estimates after-tax proceeds typically land at 60 to 80 percent of gross enterprise value, while Iconic's analysis of sale mechanics puts first-year deployable cash even lower: 55 to 75 percent of headline price once escrow holdbacks, federal long-term capital gains tax, the 3.8 percent Net Investment Income Tax under IRC Section 1411, and depreciation recapture of up to 25 percent are accounted for. Escrow alone commonly holds back 5 to 15 percent of proceeds for 12 to 18 months.

Three Structural Factors Drive Most of That Gap

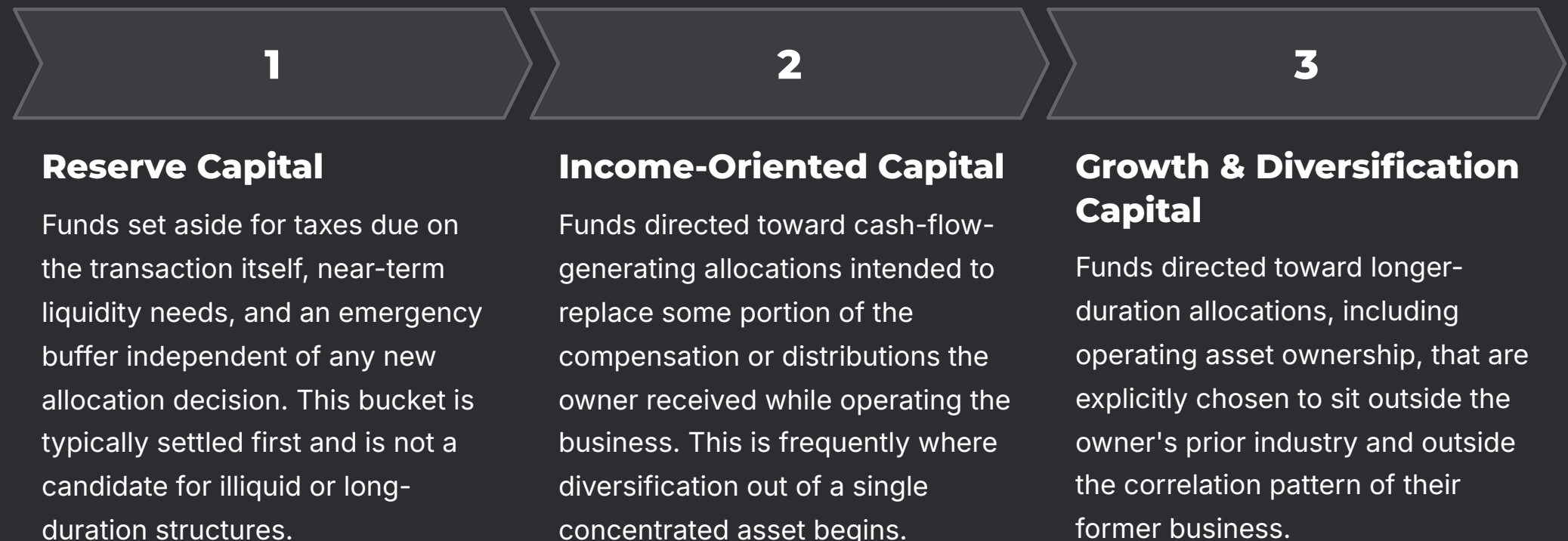
Deal Structure Wealth Enhancement Group's analysis draws a clear line between asset sales, where a portion of proceeds is frequently taxed at higher ordinary income rates tied to depreciation recapture, and stock sales, where proceeds more often qualify for capital gains treatment. CT Acquisitions' 2026 guide walks through a worked illustration of a C-corporation asset sale: 21 percent federal entity-level tax plus state tax, followed by a second layer of shareholder-level tax near 23.8 percent, producing an effective combined rate above 50 percent on a \$5 million transaction. A stock sale on the same facts looks materially different. This is a conversation to have with a tax advisor before a term sheet is signed, not after.	Residency and State Tax Exposure WalletGrower's state-by-state comparison shows the swing clearly: California taxes capital gains as ordinary income at rates up to 13.3 percent, while Texas and Florida sellers face only the federal stack, roughly 20 percent top federal long-term capital gains plus 3.8 percent NIIT, for an effective rate near 23.8 percent with no state layer at all. For 2026, under IRS Revenue Procedure 2025-32, the top 20 percent federal long-term capital gains bracket begins at \$545,500 for single filers and \$613,700 for married filing jointly, per Salt Creek Advisory and CountryTaxCalc.	Rollover Equity and Earnouts Passive Investments' 2026 research on PE transactions finds that rollover equity typically represents 10 to 30 percent of total consideration, often deferred under IRC Section 351, while earnouts commonly represent another 10 to 30 percent paid out over one to three years. Both reduce the amount of capital actually available to deploy at closing, even though both appear in the headline transaction value.
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⚠ Escrow alone commonly holds back 5 to 15 percent of proceeds for 12 to 18 months — confirm your true deployable figure with a tax advisor before making any allocation decisions.

The First Twelve Months: A Sequencing Framework

Wiss's research on post-sale wealth management identifies the twelve months following a liquidity event as the highest-risk window for wealth erosion, not because the capital disappears, but because decisions made quickly and without a framework tend to be the ones owners later regret. CT Acquisitions cites 2024 Cerulli Associates research finding that 68 percent of sellers who deployed proceeds within 30 days of closing later regretted the pace of that decision.

A practical sequencing framework, drawn from CT Acquisitions and Class VI Partners, groups deployable capital into three buckets rather than one undifferentiated pool:



Class VI Partners' guidance on reinvesting after a sale recommends capping allocation to any single higher-conviction, less liquid opportunity rather than concentrating the growth bucket in one new venture, which simply recreates the single-asset exposure the sale was partly meant to resolve.

Where Working Interest Ownership Fits in the Deployment Decision

For business owners evaluating where to place growth and diversification capital, direct working interest ownership in producing oil and gas assets is one structure worth understanding alongside real estate, public securities, and reinvestment into a new operating venture.

The tax mechanics are rooted in statute, not a marketing claim. IRC Section 263(c) and the related Treasury Regulation 1.612-4 allow an operator — defined as the holder of a working or operating interest in a well — to elect to expense Intangible Drilling Costs (IDC) rather than capitalize them. IDC covers costs with no salvage value: labor, fuel, chemicals, and drilling services. Tangible Drilling Costs (TDC), covering equipment with salvage value such as casing, tubing, and pumps, are capitalized and depreciated, typically over a seven-year MACRS schedule. Under the One Big Beautiful Bill Act, signed July 4, 2025, 100 percent bonus depreciation under IRC Section 168(k) was made permanent for qualifying property placed in service after January 19, 2025, according to Grant Thornton's analysis, which affects how TDC is treated in the year it is placed in service.

The feature business owners most often focus on is IRC Section 469(c)(3), which exempts a bona fide working interest from the passive activity loss rules that apply to most other types of ownership. Unlike passive real estate, where losses can generally only offset other income classified as passive under the tax code, a working interest held directly — without the liability protection of a limited partnership or LLC interposed between the owner and the asset — can offset active business income and wages. Anchor1031 and Weaver both confirm this structural requirement: the exception depends on holding the interest directly or through a general partnership, not through a liability-limited vehicle.

This is the mechanism by which deploying capital into an operating working interest can convert a portion of what would otherwise be current tax liability into ownership of a producing asset — an outcome tied to the specific costs documented in a well's authorization for expenditure (AFE) and the taxpayer's own facts, not a flat percentage that applies uniformly to every participant.

Two qualifications matter here. First, tax treatment depends on the specific IDC and TDC breakdown of a given project, the taxpayer's individual circumstances, and the applicable tax rules in the year capital is deployed, and should always be confirmed with a CPA or tax attorney before a commitment is made. Second, IRC Section 461(h) generally requires economic performance before a deduction is taken, though a recognized 90-day drilling exception allows a year-end capital contribution tied to drilling commencing within roughly 90 days to be treated as incurred in the year paid, which is why this structure is frequently evaluated on a year-end timeline.

Separately, owners who materially participated in the business they sold should confirm with their advisor whether gain on the sale itself is excluded from the 3.8 percent NIIT, since CountryTaxCalc notes that those who did not materially participate in the business generally cannot claim this exclusion, while active owner-operators often can.

Key Statutory Provisions

IRC § 263(c)

Allows operators to expense Intangible Drilling Costs rather than capitalize them

IRC § 469(c)(3)

Exempts bona fide working interests from passive activity loss rules

IRC § 168(k)

100% bonus depreciation made permanent for qualifying property after Jan 19, 2025

IRC § 461(h)

90-day drilling exception allows year-end capital contributions tied to drilling

The Energy Sector Backdrop

Beyond the tax mechanics, operating working interests sit inside a sector with its own demand backdrop.

10.6M

Jobs Supported

The U.S. oil and natural gas industry supported 10.6 million jobs in 2023, per the American Petroleum Institute

\$2.1T

Economic Contribution

The U.S. oil and natural gas industry contributed \$2.1 trillion to the U.S. economy in 2023

13.5M

Barrels Per Day

U.S. crude production reached a record 13.5 million barrels per day in December 2024

122.5

Bcf/d Projected

EIA projects marketed natural gas production will reach a record 122.5 billion cubic feet per day in 2026

The U.S. Energy Information Administration projects marketed natural gas production will reach a record 122.5 billion cubic feet per day in 2026, surpassing the prior record of 118.5 Bcf/d set in 2025. This context matters for understanding the asset class, not as a projection of outcomes for any specific well or participation.

Within Summit Ventures' entrepreneurial joint venture structure, business owners who elect to deploy a portion of surplus corporate capital or a personal distribution into a working interest position become active JV members and working interest owners, not passive investors in a fund. Summit operates as the general partner on field operations, land management, and compliance, while participants retain the governance rights and direct ownership characteristics that preserve the Section 469(c)(3) tax treatment described above.

[Learn More About Summit Ventures](#)

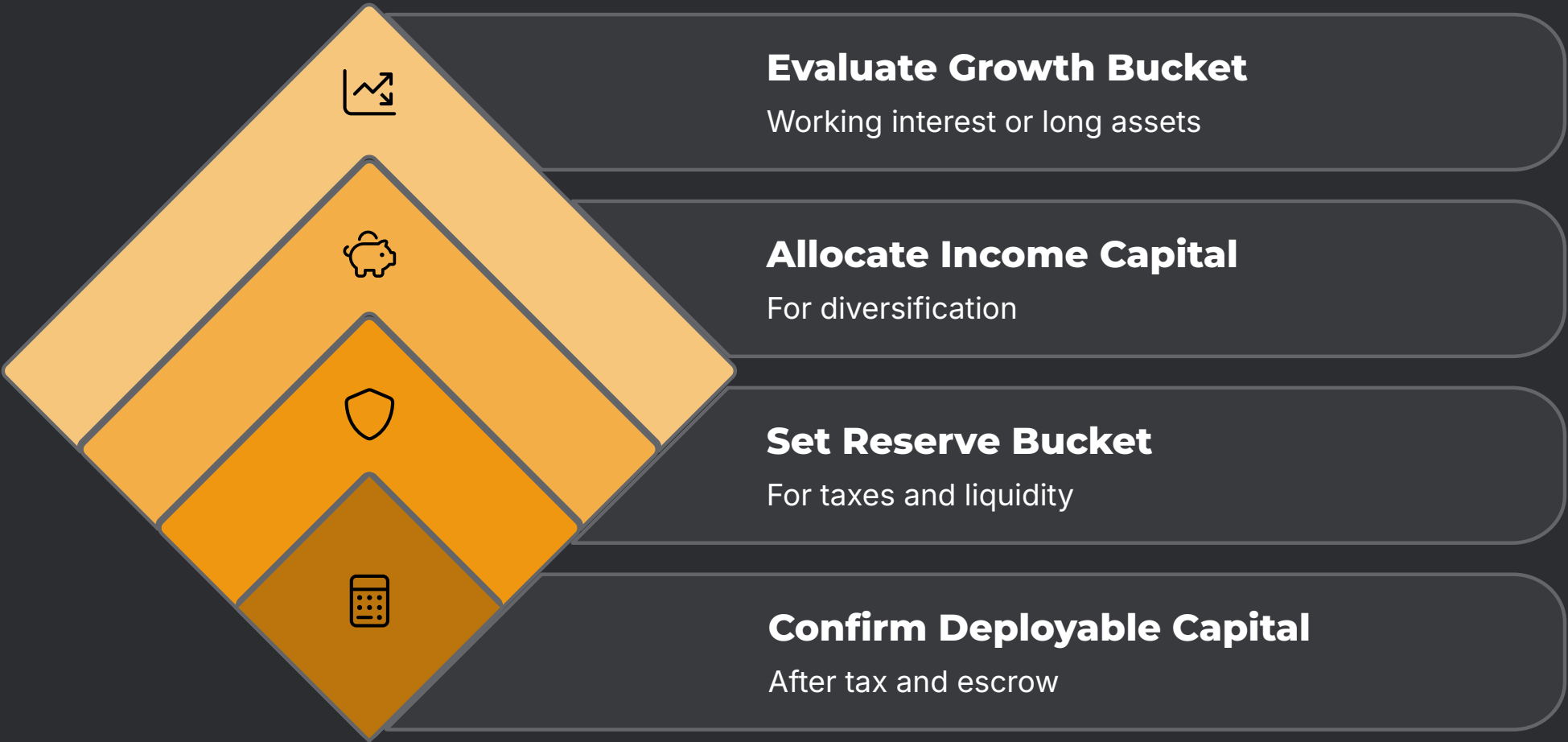
A Practical Example of the Sequencing Decision



Consider an operator who sells a middle-market services business for a headline price in the eight-figure range, structured as an asset sale with a portion of proceeds subject to depreciation recapture. After federal and state tax, escrow holdback, and a modest rollover equity position, the owner's first-year deployable capital lands within the 55 to 80 percent range that Iconic and Sofer Advisors describe as typical.

Following the reserve, income, and growth framework above, the owner sets aside the tax reserve and near-term liquidity buffer first, allocates a portion to income-generating diversification, and evaluates a capped allocation of the growth bucket to a direct working interest position, timed to align with year-end tax planning and confirmed in advance with the owner's CPA against the specific AFE for the wells involved.

❏ This sequence is illustrative of the framework described in this guide, not a projection of any specific owner's outcome, deduction amount, or return.



Tips, Best Practices & Common Mistakes

Tips and Best Practices

- Confirm deal structure — asset sale versus stock sale — before signing a letter of intent, since the tax outcome can shift materially depending on which structure is used.
- Separate the reserve, income, and growth buckets explicitly before making any new allocation decision, rather than treating all proceeds as a single undifferentiated pool.
- Review residency and state tax exposure with an advisor well before closing, since the swing between high-tax and no-tax states can be significant.
- Confirm Section 1202 Qualified Small Business Stock eligibility and the federal exclusion amount with a tax advisor if the business was structured as a C-corporation, since eligibility and state conformity vary.
- If evaluating a working interest position, request the AFE and cost breakdown for the specific wells involved so the IDC and TDC components can be reviewed with a tax advisor before committing capital.
- Treat the 90-day economic performance exception under Section 461(h) as a planning deadline, not a guarantee, and confirm timing with an advisor each year.

Common Mistakes to Avoid

Deploying Too Fast

Deploying proceeds within the first 30 days of closing without a sequencing framework. Cerulli Associates' research found 68 percent of sellers who did this later regretted the pace.

Anchoring on Headline Price

Treating the headline sale price as the deployable figure, rather than confirming the after-tax, after-escrow number with a tax advisor.

Re-Concentrating Capital

Concentrating the growth bucket into a single new venture or asset, which recreates the same single-asset exposure the sale was meant to reduce.

Missing QOF Window

Missing the 180-day Qualified Opportunity Fund window — a commonly cited error among sellers who later wanted that option available.

Wrong Entity Structure

Holding a working interest through a liability-limited vehicle without first confirming whether that structure preserves or forfeits the Section 469(c)(3) active-income offset.

Assuming Uniform Treatment

Assuming bonus depreciation or IDC treatment applies uniformly without reviewing the specific project's AFE and the taxpayer's own facts with a CPA.

Questions to Raise With Your Advisors & Closing Perspective

Questions to Raise With Your Advisors

- 1

Is this transaction — or was this transaction — structured as an asset sale, a stock sale, or a recapitalization, and how does that affect the after-tax deployable amount?
- 2

What portion of total consideration is rollover equity or earnout, and on what timeline does that capital actually become liquid?
- 3

Does my state of residency at closing materially change my effective tax rate, and is there a planning window to address that before the transaction closes?
- 4

Am I eligible for the Section 1202 Qualified Small Business Stock exclusion, and does my state conform to the federal treatment?
- 5

If I materially participated in the business I sold, does that affect whether gain on the sale is subject to the 3.8 percent Net Investment Income Tax?
- 6

If I am evaluating a working interest position, does the ownership structure I am offered preserve the Section 469(c)(3) active-income offset, or does it convert the position into a passive activity for tax purposes?
- 7

What is the AFE breakdown between intangible and tangible costs for the specific wells I am being asked to fund, and how does that affect the timing and amount of any deduction?

The capital that arrives after a sale, recapitalization, or large distribution carries the same discipline requirements that built the business in the first place. The headline number on the closing statement is a starting point for a sequencing decision, not the decision itself.

Understanding the gap between gross proceeds and deployable capital, the tax mechanics tied to deal structure and residency, and the statutory basis for structures like Section 263(c) and Section 469(c)(3) gives an owner and their advisors a clearer framework for evaluating where new capital should go, and why. Business owners who have been through this transition consistently say the same thing: the decisions made in the first twelve months matter more than the number on the closing statement itself. Confirm every tax position with a qualified CPA or tax attorney before committing capital, and treat structured ownership of operating assets as one allocation to evaluate within that framework, not a substitute for it.

Explore Summit Ventures Working Interest Opportunities

Schedule a Consultation

Sources and References

1. Marshall Financial Group, "How to Manage Your Wealth After Selling a Business." 2. Modern Wealth, "The Owners I Worry About Have It All in One Company." 3. Harford Financial Group, citing the Exit Planning Institute, on business owner wealth concentration. 4. Morgan Stanley, "Financial Planning for Life After Selling a Business." 5. Sofer Advisors, analysis of after-tax proceeds relative to gross enterprise value. 6. Iconic, "Managing Proceeds After Business Sale: A Deep Dive." 7. Wealth Enhancement Group, "Preserve Wealth After Selling a Business." 8. CT Acquisitions, "Wealth Management After a Business Sale: 2026 Guide," citing Cerulli Associates (2024). 9. WalletGrower, state-by-state capital gains tax comparison. 10. IRS Revenue Procedure 2025-32, 2026 long-term capital gains brackets, cited via Salt Creek Advisory and CountryTaxCalc. 11. Passive Investments, 2026 guide to private equity rollover equity and earnout structures. 12. Class VI Partners, "How to Reinvest After Selling a Business." 13. Cornell Legal Information Institute, 26 U.S.C. Section 469(c)(3)(A) and 26 CFR 1.612-4. 14. eFormRS, statutory analysis of IRC Section 263(c) operator definition. 15. Anchor1031 and Weaver, analysis of Intangible Drilling Costs, Tangible Drilling Costs, and Section 469(c)(3) entity-structure requirements. 16. Grant Thornton, analysis of the One Big Beautiful Bill Act and permanent 100 percent bonus depreciation under IRC Section 168(k). 17. American Petroleum Institute, "Industry Explained," 2023 economic contribution and December 2024 production data. 18. U.S. Energy Information Administration, "United States on track for record natural gas production in 2026."