

# A Practical Guide to Deploying Exit Proceeds, Managing Concentration Risk, and Evaluating Tax-Aligned Reinvestment Structures

What business owners do with capital after the sale — a comprehensive framework for the decisions that matter most in the 12 to 24 months following a liquidity event.

POST-EXIT PLANNING

TAX STRATEGY

CAPITAL DEPLOYMENT

# Introduction

Closing a sale, completing a recapitalization, or taking a large owner distribution is often treated as the finish line. In practice, it is the start of a second decision cycle that is just as consequential as building the business itself: what happens to the capital now sitting in a bank account instead of inside a company you controlled.

Industry research on post-liquidity planning consistently finds that **70 to 90 percent of a business owner's net worth** is typically concentrated in a single illiquid asset before a sale or recapitalization event, and that the twelve months following a liquidity event are the highest-risk period for wealth erosion through tax exposure, rushed reinvestment, and lifestyle drift.

This guide is written for exiting and post-exit founders, active CEOs preparing for a future liquidity event, and PE-backed or recapitalized operators who are now evaluating what to do with proceeds, year-end surplus corporate capital, or owner distributions. It explains the tax mechanics that shape how much capital actually survives the transaction, the frameworks experienced advisors use to sequence deployment, and the considerations relevant to diversifying out of a single-asset concentration into structures that preserve both capital efficiency and active control.

## 70–90%

### Net Worth Concentration

Typical share of a business owner's net worth tied up in a single illiquid asset before a sale

## 12 mo

### Highest-Risk Window

The twelve months following a liquidity event — peak exposure to tax erosion and rushed reinvestment

## 68%

### Regret Rate

Business sellers who deployed proceeds within 30 days of closing and later regretted the pace (Cerulli, 2024)

# What You Will Learn

This guide will help you understand the full landscape of post-exit capital decisions — from tax mechanics to deployment sequencing to structural considerations.

## **1 The Gap Between Headline Price and Deployable Capital**

Why after-tax, after-escrow proceeds are typically smaller than the headline sale price, and what drives that gap.

## **2 Asset Sale vs. Stock Sale**

The practical difference between these two structures, and why that structural choice changes your tax exposure materially.

## **3 A Bucket-Based Deployment Framework**

How to sequence how proceeds get deployed over the first 12 to 24 months using a three-bucket approach.

## **4 Tax-Aligned Instruments**

How Section 1202 QSBS, Section 1042 ESOP rollovers, Section 351 rollover equity, and IRC 263(c)/469(c)(3) working interest deductions fit into a broader tax-aware deployment plan.

## **5 Common Sequencing Mistakes**

The errors that erode value in the first year after a transaction — and how to avoid them.

## **6 Questions for Your Advisors**

The right questions to raise with your CPA, tax attorney, and wealth advisor before capital is deployed.

# Why the Gap Between Sale Price and Deployable Capital Matters

A headline enterprise value is not the number that lands in your account. Escrow holdbacks of roughly **5 to 15 percent** are commonly held for 12 to 18 months to cover indemnification claims. Layered on top of that are federal long-term capital gains taxes, the 3.8 percent Net Investment Income Tax under IRC 1411, and, in asset sales, depreciation recapture taxed as ordinary income rather than capital gains. Industry analyses of business sales put typical year-one deployable cash, after escrow and taxes, at roughly **55 to 80 percent of the gross transaction value**, with the exact figure depending heavily on deal structure and state residency.

## Asset Sale: Higher Tax Exposure

In an asset sale, the buyer purchases individual assets and liabilities, which frequently triggers depreciation recapture taxed at ordinary income rates. In a C-corporation, this can result in taxation at both the entity level and the shareholder level — in some cases producing an **effective combined rate above 50 percent** on the proceeds that flow to the owner.

## Stock Sale: Generally More Favorable

In a stock sale, the seller transfers equity directly, and proceeds are generally taxed once, at capital gains rates. For 2026, the top federal long-term capital gains bracket (20 percent) applies above \$545,500 of taxable income for single filers and \$613,700 for married filing jointly, per IRS Revenue Procedure 2025-32, with the 3.8 percent NIIT stacking on top for owners who did not materially participate in the business or for gain characterized as investment income.

## State Residency: A Material Variable

A seller domiciled in a state with no income tax can see a materially different effective rate than a seller in a state that taxes gains as ordinary income. None of this is a reason to delay a transaction. It is the reason that **deployment planning has to start before the closing date**, not after the wire transfer arrives.

## Typical Year-One Deployable Capital

After escrow holdbacks, federal capital gains taxes, NIIT, and recapture, most sellers see:

**55–80%**

Of gross transaction value available to deploy in year one

**5–15%**

Held in escrow for 12–18 months for indemnification

**3.8%**

Net Investment Income Tax (IRC 1411) stacked on top of capital gains

# The Concentration Problem You Are Solving For

Before the sale, the business itself was functioning as a diversification strategy of one. Most owners who have spent a decade or more building a company have never had the opportunity, or the need, to build a second or third asset class alongside it. The moment proceeds land, that concentration does not disappear. It simply changes form: instead of being concentrated in operating equity, it becomes concentrated in cash, in rollover equity tied to the same buyer, or in a single reinvestment decision made too quickly.

A widely cited 2024 Cerulli Associates finding, highlighted in subsequent wealth management guidance, found that **68 percent of business sellers who deployed proceeds within 30 days of closing later regretted the pace of that decision.** The pressure to "do something" with a large lump sum is real, but the data suggests that the better posture is a structured sequencing plan rather than a single large redeployment.

## Before the Sale

Concentration in operating equity — one illiquid asset representing 70–90% of net worth. The business itself is the entire portfolio.

## At Closing

Concentration shifts form — from operating equity to cash, rollover equity tied to the same buyer, or a single rushed reinvestment decision made under time pressure.

## The Goal

A structured sequencing plan that systematically diversifies concentration across asset classes, timelines, and risk profiles — not a single large redeployment.

# A Framework for Sequencing the Decision

Experienced post-exit advisors generally organize capital into three functional buckets rather than one undifferentiated pool. Within that framework, four decision points typically determine the tax efficiency and risk posture of the plan.



## Bucket 1: Reserve Capital

Funds set aside for near-term liquidity needs, escrow timing gaps, tax payments due on the transaction itself, and an emergency buffer independent of any new venture or asset.



## Bucket 2: Income-Generating Capital

Capital redeployed into assets structured to produce ongoing cash flow, ideally diversified by asset class and inflation sensitivity, rather than concentrated in a single security or a single new business.



## Bucket 3: Growth & Opportunity Capital

A smaller, capped allocation reserved for higher-conviction opportunities, including new ventures, private participations, or structures the owner can evaluate with the same operational rigor they applied inside their own company.

## The Four Decision Points

01

### Quantify the Actual Tax Character Before Closing

Work with your CPA to model whether the deal is structured as an asset sale or stock sale, what portion (if any) of gain may qualify for Section 1202 Qualified Small Business Stock exclusion (up to \$10 million or 10 times basis, subject to holding period and eligibility requirements), and whether an ESOP rollover under Section 1042 or PE rollover equity under Section 351 is part of the consideration. Each of these mechanisms changes the net cash available to deploy and the timeline on which it arrives.

03

### Evaluate Entity Structure and Participation Requirements

Certain deductions and offsets — including those available to working interest owners under IRC 263(c) and the passive-loss exception in IRC 469(c)(3) — are tied directly to how the ownership position is held. Section 469(c)(3) allows a working interest holder's otherwise-active losses to offset active income, including wages, business distributions, and other ordinary income, but this exception depends on holding the interest directly or through a structure, such as a general partnership, that does not limit personal liability. A limited partnership or liability-limited LLC structure generally loses this treatment and the position is instead treated as passive. The entity wrapper matters as much as the underlying asset when the goal is active-income offset rather than passive-loss treatment.

02

### Separate the Reserve Bucket First

This is the step most frequently skipped under time pressure, and it is the one most directly tied to the 30-day regret statistic. Before any reinvestment decision is made, the reserve bucket must be funded and ring-fenced.

04

### Sequence Timing Around Calendar-Year Deadlines

Intangible Drilling Costs (IDC) and Tangible Drilling Costs (TDC) in a direct working interest are defined under Treasury Regulation 1.612-4: intangible costs are labor, fuel, and other items with no salvage value, while tangible costs (casing, tubing, pumping equipment) have salvage value and are depreciated rather than expensed, generally over a 7-year MACRS schedule. The actual percentage of a given capital contribution classified as IDC versus TDC depends on the specific Authorization for Expenditure (AFE) and well engineering, not on a universal industry ratio, so this figure should always be confirmed against the specific program rather than assumed. IRC 461(h) includes a 90-day economic performance exception that is specifically relevant to year-end capital contributions tied to drilling activity.

# Examples and Common Mistakes

## A Practical Example of the Sequencing Decision

*(Illustrative only)*

Consider a manufacturing company owner who completes a stock sale and receives proceeds net of escrow. Rather than deploying the full balance into a single reinvestment within the first month, the owner works with a CPA and wealth advisor to first fund the reserve bucket (covering the estimated tax liability due the following April and a liquidity cushion), then evaluates income-generating allocations across more than one asset class, and finally considers a capped allocation to a higher-conviction, operationally active opportunity — such as a direct working interest position, evaluated with the same diligence the owner historically applied to acquisitions inside their own company.

This sequencing illustrates the framework only; it does not represent a projected or guaranteed outcome, and the appropriate allocation percentages depend entirely on individual tax posture, risk tolerance, and professional guidance.

## Common Mistakes to Avoid

- **Treating the headline sale price as the deployable number** — rather than modeling escrow holdbacks, recapture, and the asset-sale-versus-stock-sale distinction before closing.
- **Deploying a large percentage of proceeds within the first 30 days** under pressure to "do something," consistent with the behavior the Cerulli research flagged as a common source of after-the-fact regret.
- **Selecting a liability-limited entity structure (LP or LLC)** for a working interest position without understanding that this structure typically converts the position from active-income-offset eligible under 469(c)(3) to passive, eliminating the specific benefit the owner may have been seeking.
- **Ignoring state residency timing.** Because some states tax capital gains as ordinary income and others do not tax them at all, the timing of a residency change relative to the closing date can materially change after-tax proceeds.
- **Waiting until after the proceeds arrive** to engage a CPA and tax attorney, rather than modeling the transaction structure and reinvestment sequencing before the closing date.

# Tips and Best Practices

The following practices reflect the approach experienced post-exit advisors consistently recommend for owners navigating the deployment window.

1

## Build the Three-Bucket Plan Before Closing

Build the three-bucket allocation (reserve, income, growth) as a written plan before closing, not as a reaction afterward. The plan should be documented and agreed upon with your advisory team prior to the wire transfer arriving.

2

## Confirm Elections on the Closing Checklist

Confirm QSBS eligibility, ESOP rollover availability, and rollover equity terms as part of the closing checklist itself, since some of these elections have strict timing requirements that cannot be retroactively satisfied.

3

## Verify Entity Structure in Writing

When evaluating any structure marketed for its tax treatment — including direct energy working interest participation — confirm in writing how the entity is structured, since 469(c)(3) eligibility depends on direct holding or a general-partnership-style structure rather than a liability-limited wrapper.

4

## Treat Diversification as a Structural Goal

A business owner moving out of one concentrated position should generally avoid simply recreating concentration in a new single asset. Diversification should be a structural goal independent of any single opportunity.

5

## Revisit the Plan at Defined Intervals

Revisit the allocation plan at defined intervals (90 days, one year) rather than treating the initial deployment decision as final. Markets, tax law, and personal circumstances all change.

# Questions to Raise With Your Advisors

Before any capital is deployed, these are the questions worth raising explicitly with your CPA, tax attorney, and wealth advisor. The answers will shape both the tax efficiency and the risk posture of your deployment plan.

## Transaction Structure

What portion of our transaction is structured as ordinary income versus capital gains, and does that change based on asset sale versus stock sale structuring?

## QSBS Eligibility

Does any portion of the proceeds qualify for Section 1202 QSBS treatment, and have we confirmed the holding period and eligibility requirements?

## Working Interest Entity Structure

If we are considering a working interest position for active-income offset purposes, is the entity structure being offered one that preserves 469(c)(3) treatment, or is it a liability-limited structure that would convert the position to passive?

## Reserve Bucket Sizing

What is our realistic reserve-bucket number, accounting for the tax liability due on the transaction itself, before any reinvestment decision is made?

## State Residency Timing

Has our state residency been evaluated relative to the closing date, given the material differences in state-level capital gains treatment?

# Moving Forward With a Deployment Plan

The period immediately after a sale, recapitalization, or large distribution is not a moment to rush a single decision. It is a planning window with its own sequence: quantify the actual after-tax number, separate reserve capital from deployment capital, confirm entity structure before assuming any tax treatment applies, and build a diversification plan that reflects the same operational discipline used to build the business in the first place.

Energy sector participation — including direct working interest ownership structured to preserve active-income offset eligibility under IRC 263(c) and 469(c)(3) — is one of several tools exiting and post-exit operators evaluate as part of this broader plan, alongside QSBS exclusions, ESOP rollovers, and diversified income-generating allocations. The right sequence, and the right structure, depend on your specific transaction, your tax position, and guidance from your own CPA and tax counsel.

**Summit Ventures** operates as an entrepreneurial joint venture platform built around direct working interest participation in U.S. energy assets, giving business owners who choose to allocate a portion of post-exit capital toward active energy ownership a structure designed around operational transparency and direct governance involvement rather than passive fund participation. Owners evaluating this path as part of their broader deployment plan are encouraged to review the structural requirements in the Practical Guidance section above with their own professional advisors before making an allocation decision.



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