

A Dallas Manufacturing CEO Became a Working Interest Owner

A 90-Day Capital Allocation Case Study Examining Post-Exit Tax Exposure and Direct Energy Participation

- ❏ This case study is an illustrative, composite participant profile constructed from recurring patterns among exiting and post-exit business owners. It is not an actual Summit Ventures participant, and no specific dollar figures, deduction amounts, or rates of return are claimed or implied. It is presented for educational purposes.

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Case Classification & At-a-Glance Summary

Case Overview

Case Type	Illustrative, composite participant profile
Industry	Middle-market industrial manufacturing
Location	Dallas, Texas
Trigger Event	Full sale of a privately held manufacturing company, structured as an asset sale
Decision Window	The 90 days following closing

Participation Structure & Tax Mechanisms

A direct working interest position in a multi-well developmental program, held in a manner designed to preserve active-income tax treatment.

- Intangible drilling cost treatment under IRC Section 263(c)
- Working interest exception under IRC Section 469(c)(3)
- Tangible drilling cost depreciation
- Percentage depletion allowance under Sections 611 and 613A

Participant Profile, Trigger & Situation

The composite participant built and operated a middle-market industrial manufacturing company in the Dallas area for more than fifteen years. Like many founder-operators, the overwhelming majority of his net worth was concentrated in the business itself rather than in a diversified portfolio of outside assets. This pattern is common and well documented: Marshall Financial Group notes that roughly 90 percent of an owner's net worth is typically locked inside the company before a sale, and the Exit Planning Institute, cited by Harford Financial Group, places that figure at 70 to 80 percent for most business owners.

In 2026, the participant completed a full sale of the company to a strategic acquirer, structured as an asset sale rather than a stock sale. This distinction matters for tax purposes. Wealth Enhancement Group explains that asset sales frequently generate a blend of ordinary income, tied to depreciation recapture and inventory, alongside capital gains on goodwill and other intangibles, whereas stock sales are generally taxed entirely at capital gains rates. For a Texas resident with no state income tax, the federal stack still applies in full: the 2026 long-term capital gains brackets run from 0 percent up to roughly 49,450 dollars of taxable income for a single filer, 15 percent through roughly 545,500 dollars, and 20 percent above that threshold, per IRS Revenue Procedure 2025-32. Layering the 3.8 percent Net Investment Income Tax under IRC Section 1411 on top of the top capital gains bracket produces an effective federal rate near 23.8 percent, a figure confirmed independently by WalletGrower's state-by-state comparison of after-tax proceeds.

The participant closed his transaction and, consistent with the behavior Wiss has documented, entered what the firm describes as the highest-risk twelve-month window for wealth erosion following a liquidity event: a period in which sudden liquidity, unfamiliar tax exposure, and pressure to "do something" with proceeds often lead to rushed or poorly structured decisions. Cerulli Associates research cited in CT Acquisitions' 2026 guide found that 68 percent of sellers who deploy proceeds within 30 days of closing later regret the speed of that decision. The participant deliberately built a 90-day evaluation window into his post-closing plan rather than reacting immediately.

90%

Net Worth Locked In

Typical owner net worth concentrated in the company before sale (Marshall Financial Group)

23.8%

Effective Federal Rate

Top capital gains bracket plus 3.8% NIIT for Texas residents with no state income tax

68%

Regret Rate

Sellers who deploy proceeds within 30 days of closing and later regret the speed (Cerulli Associates)

Challenge & Decision Criteria

Four challenges framed the participant's evaluation during this window.

1 Concentration Risk Persists Concentration risk did not disappear at closing. It simply changed form, from equity concentrated in one operating company to cash concentrated in one bank or brokerage relationship, still exposed to a single point of failure if redeployed carelessly into another single illiquid venture.	2 Immediate Tax Exposure The tax exposure tied to the 2026 sale was immediate and substantial, combining ordinary income treatment on a portion of the proceeds with capital gains and NIIT exposure on the remainder.
3 Avoiding Rushed Redeployment The participant wanted to avoid the kind of rushed redeployment Cerulli's research flags as a common regret, while also avoiding the opposite failure mode of sitting entirely in cash — what Wealth Enhancement Group describes as "cash drag."	4 Operational Transparency As a former operator, the participant explicitly did not want a purely hands-off limited partnership unit or a passive fund allocation. Having spent fifteen years directly managing a business, he wanted a participation structure that preserved some degree of operational transparency and governance involvement.

From these challenges, he established four decision criteria: the structure must offer a legally recognized mechanism to address current-year tax exposure; it must diversify him meaningfully outside of industrial manufacturing; it must preserve, where the tax code allows, the ability to offset active business income rather than being limited to the passive-income category; and it must not introduce administrative complexity disproportionate to the capital being deployed.

Goals & Solution

Participant's Stated Goals

- Address a portion of his 2026 tax exposure through a legally sound mechanism
- Diversify a meaningful share of exit proceeds away from single-sector, single-asset concentration
- Maintain a direct ownership posture consistent with his operating background rather than a fully hands-off limited partnership interest
- Establish a long-term, inflation-aware cash flow stream to help replace the income he no longer drew from active operations

The Summit Ventures Solution

The participant's advisors introduced him to Summit Ventures' entrepreneurial joint venture model, under which business participants acquire a direct working interest position in operating oil and gas assets rather than a security, fund share, or limited partnership unit. Several structural elements of this model mapped directly to his decision criteria.

The Tax Mechanics: How the Structure Works

Under IRC Section 263(c) and the regulatory definition at Treasury Regulation 1.612-4, an operator or working interest holder may elect to treat intangible drilling costs — the labor, fuel, and site preparation expenses that carry no salvage value — as currently deductible rather than capitalized. Tangible drilling costs, items like casing and wellhead equipment that retain salvage value, are generally recovered through depreciation, including the permanent 100 percent bonus depreciation treatment established under the One Big Beautiful Bill Act for qualifying property. The specific proportion of a given authorization for expenditure that qualifies as intangible versus tangible, and the resulting tax treatment available to any individual participant, depends entirely on the engineering specifics of the well program and the participant's own tax position, which is why Summit Ventures directs every participant to confirm treatment with a qualified CPA before relying on it.

Equally important to this participant's decision criteria was IRC Section 469(c)(3), which carves working interests in oil and gas properties out of the general passive activity loss rules, provided the interest is held directly or through an entity form, such as a general partnership, that does not limit the holder's liability. Unlike many real estate or fund structures that require passive investors to satisfy a material participation or real estate professional test before losses can offset active income, a properly structured direct working interest preserves that offset without such a test — a distinction that directly addressed the participant's fourth decision criterion. Holding the position through a liability-limited LP or LLC interest, by contrast, generally forfeits this exception and reclassifies the activity as passive, which is why the specific ownership structure, not just the underlying asset, determines the tax treatment available.

The participant's capital contribution is also subject to the at-risk limitation under IRC Section 465, which caps loss deductibility at the amount of capital genuinely at risk in the activity, and the Section 57(a)(2) alternative minimum tax provisions, which include an independent producer exception relevant to intangible drilling cost preferences. Future production income, if and when it occurs, would be eligible for the percentage depletion allowance under Sections 611 and 613A, generally 15 percent for independent producers, though actual eligibility depends on production volume limits and the participant's specific circumstances.



IRC § 263(c)

Intangible drilling cost election — currently deductible rather than capitalized



IRC § 469(c)(3)

Working interest exception to passive activity loss rules — active income offset preserved



IRC § 168(k)

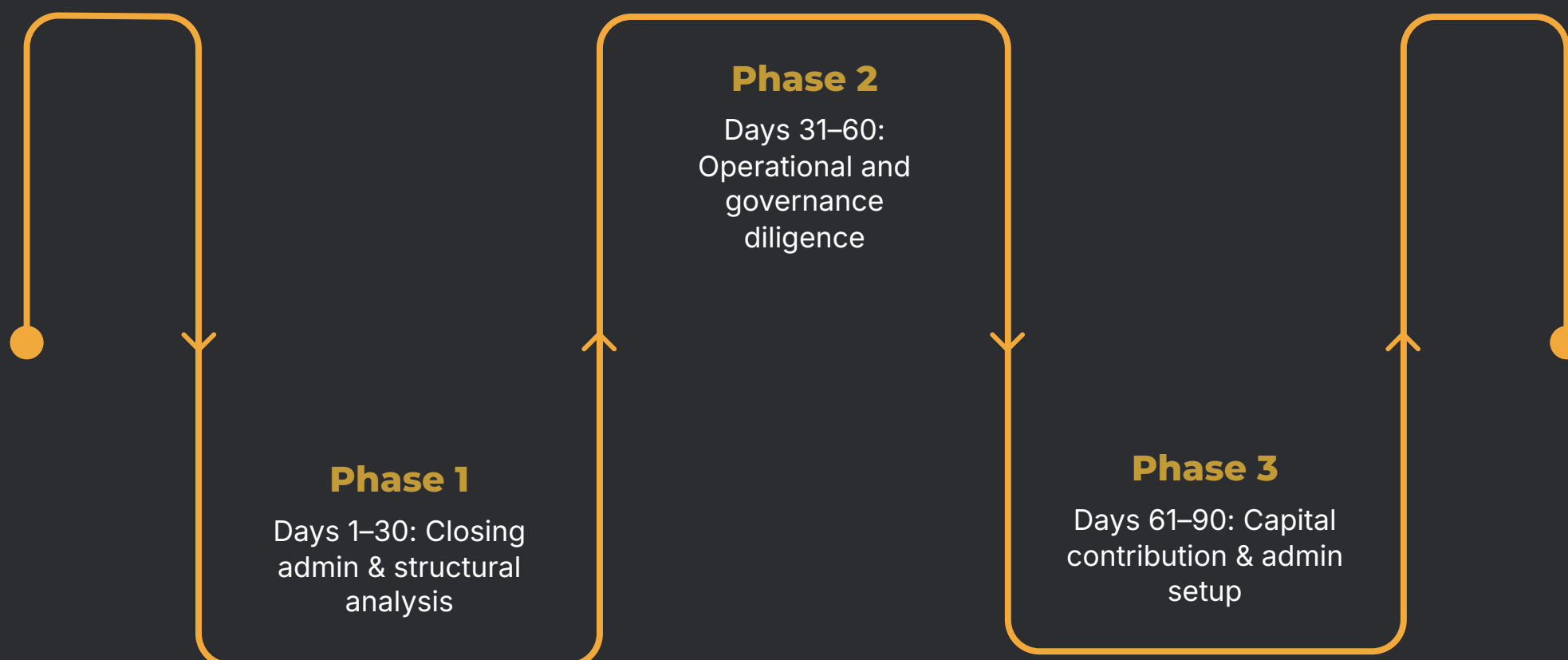
Permanent 100% bonus depreciation on tangible drilling costs under the One Big Beautiful Bill Act



IRC §§ 611 & 613A

Percentage depletion allowance — generally 15% for independent producers on future production income

Implementation: The 90-Day Evaluation Window



Days 1–30

Closing Administration & Initial Structural Analysis

The participant engaged his CPA and a business attorney to review the asset sale's final tax characterization, confirm the ordinary income versus capital gains split, and begin comparing a direct working interest structure against a liability-limited LP interest, a passive real estate allocation, and a diversified securities portfolio as the four broad categories of post-exit capital deployment under consideration.

Days 31–60

Operational & Governance Diligence

This phase focused on reviewing the authorization for expenditure for the specific well program under consideration, evaluating Summit Ventures' role and track record as operator, reviewing the joint operating agreement governing the relationship between working interest owners, and confirming the governance rights and reporting cadence available to business participants, including access to production data and operational updates rather than a single annual statement.

Days 61–90

Capital Contribution & Administrative Setup

This phase involved finalizing the capital contribution, coordinating the timing of the contribution with his CPA relative to the tax year in which the intangible drilling cost election would be claimed, and establishing the administrative mechanics of ongoing reporting, including K-1 preparation and production accounting, so that the position could be properly reflected on his personal return.

Outcome & Illustrative Mechanics

Summary

Because this is a composite, illustrative profile rather than a documented individual outcome, this section describes the directional result of the structure rather than a specific dollar figure, deduction amount, or rate of return — none of which are claimed here. Within the 90-day window, the participant moved from holding 100 percent of his post-sale liquidity in cash and money market instruments to holding a direct working interest position across a multi-well program, diversified by well and by formation rather than concentrated in a single asset. He retained governance rights and reporting access consistent with his preference for active involvement over a hands-off allocation. He also positioned a portion of his 2026 tax year exposure for potential offset through the intangible drilling cost election, subject to final confirmation with his CPA based on the actual authorization for expenditure and his individual tax position. No specific outcome, percentage, or dollar amount is asserted as representative of what any other participant should expect.

Decision Factor	Mechanism Applied	Statutory or Structural Basis
Current-year tax exposure from the 2026 asset sale	Intangible drilling cost election on qualifying well costs	IRC Section 263(c); Treas. Reg. 1.612-4
Preserving active-income offset rather than passive classification	Direct working interest held in a non-liability-limited structure	IRC Section 469(c)(3)
Equipment cost recovery	Tangible drilling cost depreciation, including bonus depreciation	IRC Section 168(k), made permanent under the One Big Beautiful Bill Act
Loss deductibility ceiling	At-risk capital limitation	IRC Section 465
Alternative minimum tax treatment	Independent producer exception considerations	IRC Section 57(a)(2)
Long-term production income treatment	Percentage depletion allowance	IRC Sections 611 and 613A
Concentration risk reduction	Diversification across a multi-well program rather than a single asset	Structural, not statutory
Governance and operational involvement	Joint operating agreement and reporting rights as a business participant	Structural, not statutory

Key Takeaways & Questions for Advisor Discussion

"I did not want to trade one concentrated position for another. I wanted to understand exactly how the structure worked, who the operator was, and what rights I had as a participant before I moved a dollar. The 90-day window gave my CPA and me time to get that right instead of reacting to a tax deadline."

This statement is a composite illustration of the reasoning process described in this case study and is not attributed to a named individual.

Key Takeaways

This case study rests on several explicit assumptions: that the participant is a Texas resident subject only to federal tax exposure on the transaction, that the sale was structured as an asset sale generating a blend of ordinary income and capital gains, that the participant elected to hold his working interest directly rather than through a liability-limited entity, and that all figures describing tax brackets, thresholds, and statutory provisions reflect 2026 federal law as published by the IRS and codified in the Internal Revenue Code. None of the figures in this case study represent guaranteed outcomes, projected returns, or a recommendation that any specific reader pursue an identical structure without independent professional review.

Concentration risk doesn't end at closing

It simply changes shape — from equity in one company to cash in one account.

The 90-day window is a reasonable minimum

Cerulli Associates research validates this by documenting regret among owners who moved in 30 days or less.

Legal form determines tax treatment

The specific legal form in which a working interest is held — not merely the underlying asset class — determines whether the position can offset active income.

Governance structures exist for operators

A business owner who values governance rights and operational transparency has participation structures available that differ meaningfully from a conventional fund or LP interest.

Questions for Advisor Discussion

1. How was the sale structured — as an asset sale or a stock sale — and what mix of ordinary income and capital gains does that create?
2. What portion of total proceeds, if any, is appropriate to allocate toward a working interest structure relative to other diversification priorities?
3. Does the specific ownership vehicle under consideration preserve the Section 469(c)(3) active-income exception, or does its liability-limited form reclassify the activity as passive?
4. What governance rights, reporting cadence, and operator track record are available to review before a capital contribution is finalized?
5. What is the appropriate timing, within the tax year, for a capital contribution relative to the intangible drilling cost election being considered?

Closing Perspective

A business exit resolves one question and opens several others. The capital that results from fifteen years of operating decisions deserves the same deliberate, criteria-driven evaluation the participant applied to running his company — not a reflexive reaction to a looming tax deadline or an unfamiliar liquidity position. For owners, CEOs, and operators who value direct participation, governance transparency, and a structure built around active ownership rather than a passive allocation, a direct working interest position is one of several categories worth evaluating during that window, alongside real estate, diversified securities, and continued reinvestment in a new operating venture.

The right answer depends on the specific transaction, the participant's tax position, and professional guidance — not on a generic formula. Summit Ventures' role in this process is to provide education on how the entrepreneurial joint venture model, working interest ownership, and the relevant tax mechanics function, so that business participants and their advisors can evaluate the structure on its merits.

Sources & References

[1] Marshall Financial Group, "How to Manage Your Wealth After Selling a Business": approximately 90 percent of owner net worth typically concentrated in the company before sale. [2] Harford Financial Group, citing the Exit Planning Institute: 70 to 80 percent of most business owners' wealth is 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; cash drag from idle proceeds. [4] ustax.tools, 2026 capital gains tax rate pages, per IRS Revenue Procedure 2025-32: 2026 long-term capital gains brackets and Net Investment Income Tax stacking under IRC Section 1411. [5] WalletGrower, state capital gains comparison: Texas and Florida effective federal rate of approximately 23.8 percent with no state income tax layer. [6] CT Acquisitions, "Wealth Management After a Business Sale: 2026 Guide," citing Cerulli Associates: 68 percent of sellers who deploy proceeds within 30 days of closing report regret. [7] Wiss, "Wealth Management for Business Owners After a Sale": the twelve months following a liquidity event represent the highest-risk period for wealth erosion. [8] Cornell Legal Information Institute, 26 U.S.C. Section 263(c); Treasury Regulation 1.612-4: intangible drilling cost election mechanics and statutory operator definition. [9] AE Tax Advisors and Anchor1031, oil and gas working interest tax treatment education: intangible versus tangible drilling cost distinction; IRC Section 469(c)(3) mechanics. [10] Cornell Legal Information Institute, 26 U.S.C. Section 469(c)(3)(A): working interest exception to passive activity loss rules. [11] 26 U.S.C. Section 465, at-risk limitation; 26 U.S.C. Section 57(a)(2), alternative minimum tax preference and independent producer exception; 26 U.S.C. Sections 611 and 613A, percentage depletion allowance. [12] One Big Beautiful Bill Act, permanent 100 percent bonus depreciation under IRC Section 168(k), as summarized by Wiss and Anchor1031.

Ready to evaluate whether a direct working interest position belongs in your post-exit capital allocation strategy?

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