

What Business Owners Do With Capital After the Sale

A Practical Guide to Deploying Exit Proceeds — covering concentration risk, tax exposure, sequencing decisions, and direct energy ownership structures for exiting founders and operators.

EDUCATIONAL RESOURCE

FOR EXITING FOUNDERS & OPERATORS

Introduction: The Work That Begins at Closing

The Concentration Reality

Industry research from the Exit Planning Institute puts **70 to 80 percent** of a typical owner's wealth concentrated in the business itself. Modern Wealth Management has cited figures as high as **80 to 90 percent** for owners who have not actively diversified before a transaction.

The day the wire hits the account, that concentration does not disappear. It simply changes form — from equity in a single operating company to cash sitting in a single bank account, often still exposed to a single decision about what to do next.

Who This Guide Is For

Closing a sale, completing a recapitalization, or taking a large owner distribution is a milestone most founders spend a decade or more working toward. It is also the moment when a very different kind of work begins.

This guide is written for:

- Exiting and post-exit founders
- Active CEOs approaching a liquidity event
- PE-backed operators working through a recapitalization

It does not tell you where to put your money. It explains, in plain terms, the tax mechanics that shape how much of the sale price you actually keep, the sequencing mistakes that research shows cost sellers the most, and the structural tools that business owners use to convert a portion of that liability into owned, income-producing assets.

> Professional tax and legal guidance should always be part of this process. This guide is intended to make that conversation more informed, not to replace it.

What You Will Learn

By the end of this guide, you should understand:

1	**Concentration Risk After Closing** Why concentration risk does not end at closing, and why the first 12 months after a liquidity event are considered the highest-risk period for erosion of sale proceeds.
2	**Asset Sale vs. Stock Sale** The practical difference between an asset sale and a stock sale, and why that distinction can move net proceeds by hundreds of thousands of dollars on a mid-size transaction.
3	**Deployable Proceeds Reality** How much of a headline sale price owners typically have available to deploy once escrow, taxes, and depreciation recapture are accounted for.
4	**Sequencing Mistakes** The most common sequencing mistake sellers make with newly liquid capital, and the data behind why it tends to be regretted.
5	**IRC Section 469(c)(3) & 263(c)** How the working interest exception and the Section 263(c) election function as statutory mechanisms, distinct from syndicated tax shelters.
6	**Allocation Framework** A practical framework for allocating exit proceeds across reserve, tax-offset, and growth categories.

What Happens the Day After Closing

A business sale rarely converts cleanly into spendable cash on day one. Several structural features of a typical transaction reduce the amount an owner can actually deploy in year one.

Immediate Reductions to Deployable Cash

First, a portion of the purchase price is commonly held back. **Escrow and holdback provisions on 5 to 15 percent of the deal are standard practice**, often released over a 12 to 18 month window tied to indemnification and working capital true-ups.

Second, taxes are due on the portion that is paid, and the tax treatment depends heavily on deal structure. Research from Iconic's analysis of post-sale wealth management found that owners typically net only **55 to 75 percent of the headline purchase price** as deployable cash in year one, once escrow, 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 factored in.

Sofer Advisors reports a similar range, noting that after-tax proceeds typically land between **60 and 80 percent of gross enterprise value**, and that the asset-sale-versus-stock-sale decision alone can swing net proceeds by $400,000 to over $1 million on a $10 million transaction. This is the single largest tax lever in the entire transaction, and it is usually negotiated well before closing, not after.

2026 Capital Gains Brackets (IRS Rev. Proc. 2025-32)

Rate	Single Filers	Married Filing Jointly
0%	Up to $49,450	Up to $98,900
15%	Up to $545,500	Up to $613,700
20%	Above $545,500	Above $613,700
+3.8% NIIT	IRC Section 1411	IRC Section 1411

Add the 3.8 percent NIIT under IRC Section 1411, and a seller at the top bracket faces a **stacked federal rate near 23.8 percent** before state tax is even considered.

> ⚠ Owners who materially participated in the business may be able to exclude qualifying gain from NIIT. Sellers who held a purely passive position generally cannot claim that exclusion.

Asset Sale vs. Stock Sale: The Critical Distinction

In an **asset sale**, the buyer purchases the company's individual assets rather than its equity. Portions of the proceeds allocated to equipment, inventory, and certain intangibles can be taxed at ordinary income rates and trigger depreciation recapture, while goodwill is typically taxed at capital gains rates. In a **stock sale**, the seller transfers ownership of the entity itself, and proceeds are generally taxed entirely at capital gains rates, which are meaningfully lower than ordinary income rates for most sellers. CT Acquisitions' 2026 guide walks through a worked example of a $5 million C-corp asset sale where entity-level federal and state tax combined with shareholder-level tax on the distribution produces an effective rate exceeding 50 percent, illustrating why structure, not just price, determines what an owner actually keeps.

The Concentration Problem Does Not End at Closing

80%

Wealth Concentrated

Typical share of a founder's net worth tied up in their business before a transaction

7 in 10

Rely on Proceeds

Former owners who rely on sale proceeds to fund their post-exit lifestyle (Morgan Stanley)

12 mo

Highest-Risk Window

The first 12 months after a liquidity event — the period most vulnerable to wealth erosion (Wiss)

68%

Regretted Speed

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

Concentration Risk Redefined

Chesapeake Financial Planners defines concentration risk as the exposure created when one asset — in this case now a cash position rather than a company — makes up most of an individual's net worth and most of their income at the same time. Many owners spend years being told to diversify away from their business. Few are told that parking all of the proceeds in a single brokerage account, a single real estate deal, or a single annuity simply recreates the same concentration problem in a different wrapper.

The Hidden Cost: Cash Drag

Morgan Stanley's research on post-sale financial planning found that roughly 7 in 10 former owners rely on sale proceeds to fund their post-exit lifestyle, which raises the stakes on both the tax efficiency of the transaction and the durability of whatever the proceeds are redeployed into.

Wealth Enhancement Group also flags a related and frequently overlooked cost: **"cash drag"** — the opportunity cost of letting proceeds sit in low-yield, undeployed accounts while a deployment plan is being finalized.

A Framework for Sequencing the Decision

The data on seller behavior after closing is clear on one point: **speed without a plan is costly.** A 2024 Cerulli Associates finding reports that 68 percent of sellers who deployed proceeds within 30 days of closing later regretted the pace of that decision. The mistake is rarely the decision to deploy capital. It is deploying it before the tax picture, liquidity needs, and diversification plan have been thought through.

A commonly used framework, described by Class VI Partners among others, allocates exit proceeds across three categories rather than a single destination:

🛡️ Bucket 1: Reserve Capital

Funds set aside for near-term liquidity needs, the pending tax liability itself, and an emergency buffer. This bucket is intentionally conservative and **should be sized before anything else is decided.**

⚡ Bucket 2: Income & Tax-Offset Capital

Capital directed toward structures that generate current cash flow and, where applicable, legitimate tax deductions that can offset the ordinary income and capital gains recognized in the sale year. This is where statutory mechanisms like the IRC Section 469(c)(3) working interest exception become relevant.

🚀 Bucket 3: Growth Capital

Longer-horizon capital directed toward new ventures, additional operating businesses, or other growth-oriented allocations, consistent with an owner's history of building and operating assets directly rather than holding diversified paper securities.

Rollover Equity and Earnouts

In many PE-backed recapitalizations, a portion of proceeds is not received in cash at all. **Rollover equity typically represents 10 to 30 percent of total consideration** and can qualify for tax deferral under IRC Section 351 if structured correctly, while **earnouts typically represent another 10 to 30 percent** of consideration paid out over 1 to 3 years. Both reduce the amount of capital available for deployment in year one and should be factored into the reserve and income bucket sizing described above.

Warren Averett's pre-closing framework recommends owners and their advisors explicitly address key questions before the sale closes, not after the capital has already landed. See the Questions section below.

Working Interest Participation & IRC Section 263(c)

A STATUTORY MECHANISM — NOT A SHELTER

One of the most consequential and least understood tools available to business owners with concentrated gain or ordinary income in a given tax year is direct participation in oil and gas working interests under Internal Revenue Code Section 263(c).

What the Code Actually Says

Section 263(c), together with Treasury Regulation 1.612-4, allows an "operator" — defined as the holder of a working or operating interest in a lease who bears the costs of development — to elect to expense **Intangible Drilling Costs (IDC)** rather than capitalize them. IDC covers the labor, fuel, chemicals, and other costs of drilling that have no salvage value.

Tangible Drilling Costs (TDC), which cover equipment such as casing, tubing, and pumps that retain salvage value, are generally depreciated rather than expensed, though current law under the One Big Beautiful Bill Act, signed July 4, 2025, made 100 percent bonus depreciation under IRC Section 168(k) permanent for qualifying property placed in service after January 19, 2025.

> The actual tax treatment of any specific contribution depends on the IDC and TDC allocation confirmed in the authorization for expenditure for that well, individual circumstances, and the applicable election made, and should always be confirmed with a qualified tax professional. This guide does not state a universal deductible percentage, because no single percentage applies uniformly across structures.

Why Direct Holding Matters

The reason this mechanism is relevant specifically to active business owners — rather than passive fund investors — is **IRC Section 469(c)(3)(A)**. The statute excludes a working interest in an oil or gas property from the passive activity rules "which the taxpayer holds directly or through an entity which does not limit the liability of the taxpayer."

In plain terms: an owner who holds a working interest directly — not through an LLC or LP that limits liability — can treat losses generated by that interest as **active**, meaning they can offset ordinary business income, W-2 wages, and other active income, not merely other passive income.

This is a materially different mechanism than the passive-loss limitations that apply to most real estate syndications and fund structures, and it is the reason the entity structure of the participation matters as much as the economics of the underlying well.

Timing Mechanics

IRC Section 461(h) generally requires economic performance before a cost can be deducted, but a specific exception permits a taxpayer to deduct prepaid intangible drilling costs if **drilling begins within 90 days of the end of the tax year**, which is why this mechanism is frequently discussed in the context of year-end tax planning for business owners with a known, concentrated income event.

At-risk rules under IRC Section 465 limit deductible losses to the amount of cash actually contributed, and excess IDC above certain thresholds can become an Alternative Minimum Tax preference item under IRC Section 57(a)(2) — both of which are reasons this structure requires coordination with a tax professional rather than independent execution.

> For a business owner who has just recognized a large capital gain or ordinary income event from a sale, recapitalization, or distribution, a direct working interest capital contribution is one of the few remaining mechanisms under current law that can generate a current-year, active-income-eligible deduction while simultaneously converting a portion of the tax liability into ownership of a producing, cash-flowing physical asset — rather than a paper deduction with no underlying asset attached.

Why Energy Ownership Fits the Framework

Direct working interest ownership sits naturally inside the income and growth buckets described above because it produces current cash flow from production tied to a tangible asset the owner can review and understand operationally — consistent with how most business owners already think about capital allocation from running an operating company.

10.6M

Jobs Supported

U.S. oil and natural gas industry jobs supported in 2023 (American Petroleum Institute)

$2.1T

Economic Contribution

U.S. oil and gas industry contribution to the U.S. economy in 2023 (API)

13.5M

Barrels Per Day

Record U.S. crude oil production reached in December 2024 (API)

122.5

Bcf/Day Projected

EIA projected U.S. marketed natural gas production average for 2026 — a new record

These figures describe industry scale and context, not a projection of returns for any specific working interest. Past production or industry growth does not indicate future results for any individual well or participation.

A Practical Example of the Sequencing Decision

Consider, as an illustrative example only, an operator who recapitalized a portion of their company and received a mix of cash proceeds and rollover equity. The cash portion is recognized as taxable gain in the transaction year, pushing the operator into the top federal bracket for that year alone. Rather than immediately deploying the full after-tax balance into a single new venture, the operator first sizes a reserve bucket to cover the pending tax liability and near-term needs, then evaluates a direct working interest capital contribution sized to the current-year tax exposure, timed in coordination with their CPA to align with the AFE and the 90-day economic performance window, before allocating remaining capital toward longer-horizon growth.

No dollar figures or deduction outcomes are stated here, because actual results depend entirely on the specific transaction, well economics, and the operator's individual tax position. The sequencing itself — reserve first, tax-aligned income-producing allocation second, growth third — is the transferable lesson.

Tips, Best Practices & Common Mistakes

✅ Tips and Best Practices

- **Address asset-sale vs. stock-sale before signing the LOI** — not after. This single decision has the largest effect on net proceeds of nearly any other term in the deal.
- **Size your reserve bucket first**, including the full pending tax liability, before allocating any capital to income-producing or growth structures.
- **Confirm the IDC/TDC allocation** through the authorization for expenditure and confirm the entity structure preserves the Section 469(c)(3) direct-holding requirement before any working interest contribution.
- **Time any current-year capital contribution** with the IRC Section 461(h) 90-day economic performance window in mind, and coordinate directly with your CPA.
- **Evaluate QSBS eligibility** under IRC Section 1202 — which can exclude up to $10 million or 10 times basis of qualifying gain — well before a sale closes, since eligibility depends on how and when the stock was originally issued.
- **Review state residency and state tax conformity** before closing. State treatment of capital gains and QSBS varies meaningfully and can shift net proceeds by a material percentage of the total deal value.

⚠️ Common Mistakes to Avoid

Deploying Within Days of Closing

The Cerulli Associates finding that 68 percent of fast-deploying sellers later regretted the decision is a direct warning against rushing allocation before the tax picture is finalized.

Treating All Proceeds as Available Cash

Escrow holdbacks, earnouts, and rollover equity routinely reduce year-one deployable cash well below the headline sale price.

Wrong Entity Structure for 263(c)

Holding a working interest through a liability-limiting entity and expecting active-income tax treatment. The active-loss benefit under Section 469(c)(3) depends specifically on direct holding or holding through an entity that does not limit liability.

Waiting Until After Year-End

The 90-day economic performance exception for prepaid IDC and the general need for AFE documentation both favor planning before December, not during the last week of the tax year.

Confusing Industry Ranges With Personal Outcomes

Actual tax treatment always depends on the specific transaction, the individual's basis and at-risk amount, and professional guidance — not a general industry figure.

Questions to Discuss With Your Advisors

- [ ] Has the deal been structured as an asset sale or a stock sale, and has the tax impact of that choice been modeled against the alternative?
- [ ] What percentage of total consideration is in escrow, rollover equity, or an earnout, and how does that affect the reserve bucket sizing for the first 12 to 18 months?
- [ ] What is the projected total federal and state tax liability for the transaction year, including NIIT, and has that amount been fully reserved before any reinvestment decision is made?
- [ ] Does the business or stock qualify for Section 1202 QSBS treatment, and was the original stock issuance structured to preserve that eligibility?
- [ ] If evaluating a direct working interest capital contribution, does the intended holding structure preserve the Section 469(c)(3) direct-holding requirement, and has the AFE's IDC/TDC allocation been reviewed by a qualified tax professional?
- [ ] What is the plan for the capital allocated to the income and growth buckets beyond the current tax year, and how does that plan align with an owner's preference for direct, operationally transparent ownership versus pooled or passive structures?

Moving Forward With a Deployment Plan

The period after a sale, recapitalization, or large distribution is not simply a reward for years of operating a business. It is a distinct financial event with its own tax mechanics, its own risks of concentration and erosion, and its own narrow windows for action — particularly around year-end tax planning.

Owners who treat it with the same discipline they applied to running their company — sizing reserves first, understanding the statutory tools available before using them, and sequencing decisions deliberately rather than reactively — tend to retain more of what they built and redeploy it with more intention.

Reserve First

Size your reserve bucket to cover the full tax liability and near-term needs before any other allocation decision is made.

Understand the Tools

Know the statutory mechanisms — Section 263(c), Section 469(c)(3), Section 1202 — before using them, and always in coordination with qualified advisors.

Sequence Deliberately

Reserve → Tax-aligned income-producing allocation → Growth. This order is the transferable lesson from every well-executed post-exit plan.

> For owners evaluating direct working interest participation as part of the income and tax-offset portion of their plan, **Summit Ventures** operates as an entrepreneurial joint venture platform built around direct working interest ownership rather than passive fund participation. Active JV members contribute capital directly into working interest positions, retain governance rights and operational transparency into the assets they hold, and work alongside their own CPA or tax advisor to evaluate how a Section 263(c) election applies to their specific contribution and circumstances.

This structure reflects the same hands-on, direct-ownership orientation many business owners already apply to running an operating company — extended into a new asset class rather than replaced by one.

Readers evaluating this path should continue the conversation with their tax and legal advisors using the questions above as a starting point, and should treat any specific numbers discussed with a prospective working interest sponsor as illustrative until confirmed against their own AFE, basis, and individual tax situation.

Explore Direct Working Interest Participation at Summit Ventures

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Sources and References

1. Harford Financial Group, "Business Owners and Concentration Risk" · **2.** Modern Wealth Management, "The Owners I Worry About Have It All in One Company" · **3.** Iconic, "Managing Proceeds After a Business Sale: A Deep Dive" · **4.** Sofer Advisors · **5.** Wealth Enhancement Group, "Preserve Wealth After Selling a Business" · **6.** CT Acquisitions, "Wealth Management After a Business Sale: 2026 Guide" · **7.** IRS Revenue Procedure 2025-32 · **8.** IRC Section 1411 · **9.** Wiss, "Wealth Management for Business Owners After a Sale" · **10.** Chesapeake Financial Planners · **11.** Morgan Stanley, "Financial Planning for Life After Selling a Business" · **12.** Wealth Enhancement Group · **13.** Class VI Partners · **14.** Warren Averett · **15.** Passive Investments 2026 guide · **16.** IRC Section 263(c) and Treasury Regulation 1.612-4 · **17.** Grant Thornton: One Big Beautiful Bill Act (signed July 4, 2025) · **18.** Cornell LII, 26 U.S.C. Section 469(c)(3)(A) · **19.** Anchor1031 and Weaver · **20.** IRC Sections 461(h), 465, 57(a)(2) · **21.** American Petroleum Institute, "Industry Explained" · **22.** U.S. Energy Information Administration · **23.** IRC Section 1202