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

A Consideration-Stage Case Study Examining Post-Exit Tax Exposure, Concentration Risk, and Direct Energy Participation

ILLUSTRATIVE COMPOSITE | POST-LIQUIDITY CAPITAL ALLOCATION | NORTH TEXAS

This case study presents an illustrative, composite participant profile built from publicly documented tax mechanics, statutory provisions, and industry research. No dollar figures, deduction percentages, or outcomes should be read as a guarantee, projection, or representation of results any specific participant can expect. Tax treatment depends on individual facts, the structure of the underlying operating agreement, and the guidance of a qualified CPA or tax attorney.

Case Classification & At-a-Glance Summary

Case Overview

Case type: Illustrative composite, post-liquidity-event capital allocation

Industry: Light industrial manufacturing (contract metal fabrication), North Texas

Participant: Founder-CEO, majority owner, completed a full asset sale to a strategic acquirer

Decision window: The 90 days following close

Status: Illustrative; intended to demonstrate the mechanics and decision sequence an exiting operator typically works through

Core Mechanisms Evaluated

IRC Section 263(c)

Direct working interest participation in an oil and gas development program — intangible drilling cost election

IRC Section 469(c)(3)

Working interest exception to the passive-loss rules — the structural hinge the entire outcome turns on

Structure Chosen

Entrepreneurial joint venture working interest, held **directly** rather than through a liability-limiting fund or LP wrapper

Participant Profile, Trigger & Situation

The participant in this composite is a 56-year-old founder who built a contract metal fabrication business in the Dallas-Fort Worth metroplex over roughly 22 years. The company supplied precision components to industrial and aerospace-adjacent customers and had grown to meaningful scale by the time a strategic acquirer made an offer for substantially all of the company's operating assets.

The transaction was structured as an asset sale rather than a stock sale, a distinction that matters more than many first-time sellers expect. Under an asset sale, a portion of proceeds allocated to equipment, inventory, and certain intangibles can be taxed at ordinary income rates at the corporate level before any distribution reaches the shareholder, while a stock sale is generally taxed once, at the shareholder level, at capital gains rates. This founder's sale carried a meaningful ordinary-income component layered on top of the capital gains recognized at the shareholder level — a combination that is common in manufacturing asset sales where equipment and inventory represent a large share of enterprise value.

By the time the deal closed, three conditions were in place simultaneously:

1. Concentration

Research consistently finds that 70–90% of a founder's net worth is tied to the operating business. This founder's experience matched that pattern closely: the business represented the overwhelming majority of net worth for over two decades.

2. Tax Exposure

The combination of ordinary-income and long-term capital gains placed the founder into the top federal bracket. The 20% top capital gains rate plus the 3.8% NIIT under IRC Section 1411 produced a combined federal effective rate near **23.8%** on the capital-gains-taxed portion. Texas has no state income tax.

3. Compressed Decision Window

A federal estimated tax payment tied to the sale was due well inside the 90-day post-close window — meaning any planning decision had to be made and executed on a real calendar, not a theoretical one.

ⓘ Industry research (Cerulli Associates) finds that sellers who deploy a large share of proceeds within 30 days of closing report regret at a markedly higher rate than those who take a more deliberate approach. Wiss identifies the 12 months following a liquidity event as the highest-risk window for wealth erosion.

Challenge & Decision Criteria

The founder's post-exit challenge was not simply "how do I reduce taxes." It was a three-part evaluation that most operators in this position eventually have to work through explicitly, whether or not they use these exact terms:

1 Offset Current-Year Exposure

How much of the ordinary-income and capital-gains tax exposure from the sale could legally be offset in the same tax year, using a mechanism grounded in statute rather than a promotional tax-shelter claim.

2 Avoid Re-Concentration

How to avoid immediately re-concentrating a large share of net worth into a single new illiquid position, having just spent two decades with the overwhelming majority of net worth tied to one operating company.

3 Preserve Operational Involvement

How to deploy capital into a structure that offered genuine operational involvement and governance visibility, rather than a passive, fully delegated financial product the founder would have no ability to evaluate or question going forward.

Evaluation Criteria That Emerged

Statutory Grounding

Does the mechanism rely on a long-standing, well-documented provision of the Internal Revenue Code, or does it depend on an aggressive interpretation that could not withstand scrutiny?

Entity Structure

Does the structure preserve the tax treatment being sought, or does the choice of entity inadvertently convert what looks like an active position into one the tax code treats as passive?

Operational Transparency

Does the participant retain visibility into how capital is deployed, how the asset performs, and how decisions are governed?

Timing

Can the capital contribution and the underlying cost documentation (AFE and operating agreement) be completed inside the 90-day window that matters for the tax year of the sale?

Goals & Options Evaluated

Founder's Stated Goals

- Reduce the current-year federal tax liability tied to the sale through a legitimate, well-documented mechanism rather than a syndicated shelter product.
- Diversify net worth out of a single operating business and into a different asset class entirely — specifically a real, producing asset class rather than another paper security correlated with the same economic cycle.
- Preserve some degree of active, direct involvement, consistent with an operator's instinct to understand and influence the assets they hold rather than deferring entirely to a third-party manager.
- Build a long-term position with cash flow characteristics that could supplement income going forward, understood as a long-horizon participation rather than a short-term trade.

Three Paths Evaluated

Option 1: Do Nothing

Pay estimated tax from cash, park proceeds in a diversified securities account. Preserves liquidity but does nothing to offset current-year tax exposure and reintroduces market-cycle correlation risk almost immediately.

Option 2: QOZ or 1031

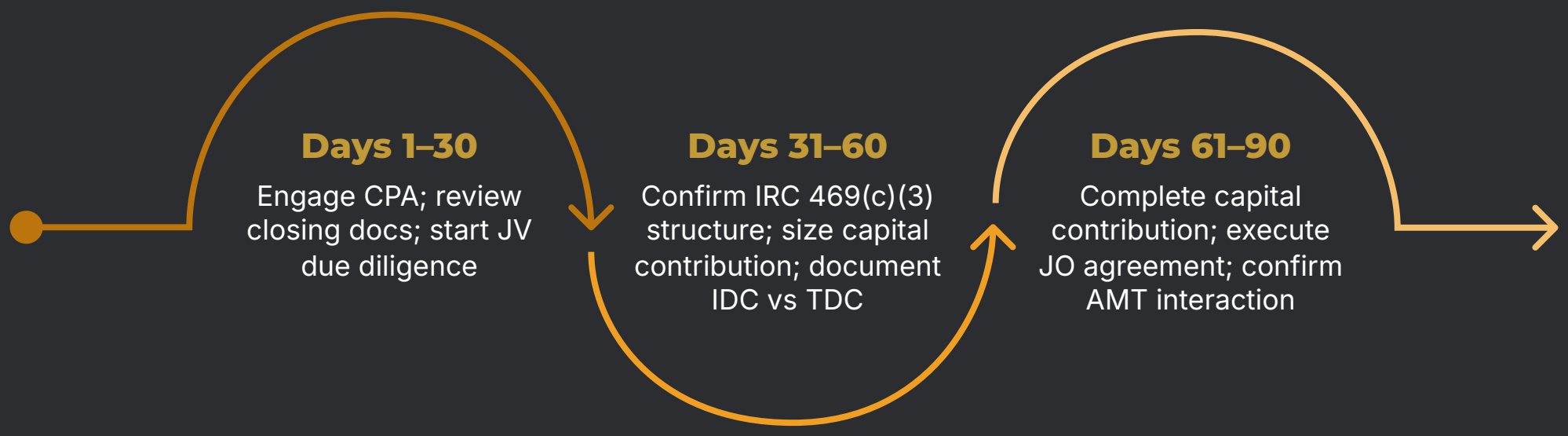
Qualified Opportunity Zone fund or 1031-adjacent real estate vehicle. Legitimate and well-documented, but strict timing rules, geographic constraints, and generally do not address the ordinary-income component of an asset sale at all.

Option 3: Direct Working Interest ✓

A direct working interest capital contribution into an active oil and gas development program structured as an entrepreneurial joint venture — held directly rather than through a liability-limiting LLC or LP wrapper. **This is the path selected.**

The reason the entity structure detail matters is the center of this case. IRC Section 469(c)(3)(A) excludes a working interest in an oil or gas property from the passive-activity rules, but **only** "if the taxpayer holds [it] directly or through an entity which does not limit the liability of the taxpayer."

Implementation: The 90-Day Sequence



Days 1–30

The founder engaged a CPA with working knowledge of oil and gas tax provisions and reviewed the closing documents to confirm the split between ordinary income and capital gains recognized on the asset sale. In parallel, the founder began reviewing an entrepreneurial joint venture working interest opportunity through Summit Ventures, including the authorization for expenditure (AFE), the joint operating agreement, and the governance rights attached to the working interest position — specifically the reporting cadence and the participant's standing to review operational decisions on the well program.

Days 31–60

With the CPA's input, the founder confirmed that a direct working interest contribution, structured so that liability was not limited, would preserve the IRC 469(c)(3) exception and allow the resulting deduction to offset active income in the year of the sale rather than being trapped as a passive loss. The capital contribution was sized relative to the founder's total post-tax proceeds, consistent with general capital-allocation discipline: a meaningful allocation to a new asset class, not a full redeployment of net worth into a single new illiquid position. The portion of the AFE attributable to intangible drilling costs — which under IRC Section 263(c) and Treasury Regulation 1.612-4 can generally be elected as a current deduction rather than capitalized — was documented and separated from the tangible drilling cost (TDC) component, which is depreciated generally over a seven-year MACRS schedule and which under current 100% bonus depreciation rules under IRC Section 168(k) can in many cases also be recovered in the year placed in service.

Days 61–90

The capital contribution was completed and the joint operating agreement executed before the close of the tax year, which mattered because IRC Section 461(h)'s economic performance rules generally require drilling activity to commence within 90 days of a year-end payment for a prepaid IDC deduction to be respected in that tax year. The founder also confirmed, with the CPA, the interaction between the IDC deduction and the alternative minimum tax preference rules under IRC Section 57(a)(2): excess intangible drilling costs are treated as an AMT preference item only to the extent they exceed 65 percent of the taxpayer's net income from oil, gas, and geothermal properties for the year, and independent producers may separately elect under IRC Section 57(a)(2)(E) to reduce this preference, subject to a cap of 40 percent of alternative minimum taxable income computed without the exception.

Explanation & Outcome: The Mechanism in Sequence

This case study does not report a verified dollar amount of tax savings, a specific deduction percentage, or a rate of return, because no such figures were sourced from an actual client engagement and presenting invented numbers as fact would misrepresent how individual tax outcomes work. What can be described — because it is grounded in statute rather than in this composite's specific numbers — is the mechanism and the sequence:

IRC 469(c)(3) Exception Preserved

A direct working interest contribution, properly structured to avoid liability limitation, allowed the composite founder's CPA to apply the IRC 263(c) intangible drilling cost election against active income in the year of the sale, rather than being limited to offsetting only passive income under the general Section 469 rules.

Tangible Cost Recovery

The tangible cost component was separately recoverable through depreciation, including the current 100 percent bonus depreciation provision under Section 168(k).

At-Risk Limitation Applied

The at-risk limitation under IRC Section 465 applied, meaning the amount at risk — generally the cash contributed — capped the deductible loss in any one year.

Percentage Depletion on Production

Once production began, income from the well program became eligible for percentage depletion treatment under IRC Sections 611 and 613A — a separate mechanism from the upfront IDC deduction that applies to ongoing production income rather than the initial capital contribution.

> The planning outcome, in sequence rather than in dollars, was: a documented, statute-based current-year deduction mechanism; an exit from single-asset concentration into a different, uncorrelated asset class; and continued operational visibility into the asset through the governance rights attached to a direct working interest position, rather than a fully delegated financial product.

Illustrative Mechanics Summary

The following table maps each decision factor to the mechanism applied and its statutory or structural basis.

Decision Factor	Mechanism Applied	Statutory / Structural Basis
Entity structure	Direct working interest, not held through a liability-limiting LLC or LP	IRC 469(c)(3)(A)
Intangible cost treatment	Current-year election rather than capitalization	IRC 263(c); Treas. Reg. 1.612-4
Tangible cost recovery	MACRS depreciation, generally 7-year schedule	IRC 168; bonus depreciation under 168(k)
Prepayment timing	Drilling commencement required within 90 days of year-end payment	IRC 461(h) economic performance rule
At-risk limitation	Deduction capped at amount economically at risk	IRC 465
AMT preference exposure	Preference applies only above 65% of net oil and gas income; independent-producer election capped at 40% of AMTI	IRC 57(a)(2)(A) and 57(a)(2)(E)
Ongoing production income	Percentage depletion on production revenue, separate from upfront IDC	IRC 611 and 613A
Governance access	Reporting cadence and review rights tied to the joint operating agreement	Entrepreneurial joint venture structure, not a passive fund interest

Key Takeaways & Questions for Evaluation

Key Takeaways for Operators Evaluating This Path

Entity Structure Is the Hinge

A working interest held through a liability-limiting fund or LP generally loses the Section 469(c)(3) active-income offset. Direct holding, or holding through a structure that does not cap liability, is what preserves it.

Timing Inside the Tax Year Matters

The Section 461(h) 90-day drilling commencement requirement for year-end prepayments matters more than most sellers expect. The calendar is not theoretical.

Genuine Diversification Required

Diversifying out of single-asset concentration into a different, operationally transparent asset class addresses both the concentration problem and the tax timing problem — but only if the new position is genuinely a different asset class and not simply a different wrapper around correlated market exposure.

No Substitute for Individualized Advice

The statutory provisions described here are long-standing and well-documented, but how they apply to any specific sale, AFE, or operating agreement depends on facts a qualified professional needs to review directly.

Questions for Operators & Advisors

1. Does the proceeds allocation from the sale include an ordinary-income component, and if so, has the CPA confirmed which mechanisms can offset which type of income?
2. Is the working interest being offered held directly, or through an LLC or LP structure that would cap liability and potentially forfeit the Section 469(c)(3) exception?
3. What is the actual drilling commencement timeline relative to any year-end capital contribution, and does it satisfy the Section 461(h) 90-day rule?
4. What governance rights and reporting cadence come with the position, and are they sufficient to allow ongoing review of operational decisions rather than a one-time capital transfer?
5. Has the at-risk limitation under Section 465 been modeled against the specific capital contribution being considered?
6. Has a qualified CPA or tax attorney reviewed the specific AFE and operating agreement, rather than relying on general industry framing?

> "After 22 years of having almost everything I owned tied up in one company, the hardest part wasn't understanding the tax code. It was accepting that I still wanted to be a business participant, not someone who just wires money and waits for a quarterly statement. Holding the position directly, with real reporting on what the operator is doing, was the part that made this feel like ownership rather than another financial product."
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> *— Composite illustration of how an operator in this position might describe the decision. Not a statement from an identified Summit Ventures participant.*

Next Steps & Sources

Working through this sequence illustrates why the structural details — not the headline tax concept — determine whether a direct energy participation decision actually achieves what an exiting operator is trying to accomplish. The statutory mechanisms described here — Section 263(c), Section 469(c)(3), Section 461(h), Section 465, and Sections 611/613A — have been part of the tax code for decades and are well documented by the Internal Revenue Service and independent tax practitioners. What changes from one operator to the next is not the statute, but the entity structure, the timing, and the degree of operational involvement the participant actually wants.

Operators evaluating a comparable decision should bring their specific sale documents, AFE, and proposed operating agreement to a qualified CPA or tax attorney before contributing capital, and should treat any direct working interest opportunity — including one offered through Summit Ventures — as a long-term business participation decision rather than a year-end tax transaction.

Explore Working Interest Opportunities at Summit Ventures

Sources & References

[1–2] Exit Planning Institute / Modern Wealth: business owner wealth concentration typically 70–90% of net worth tied to the operating company.

[3] Wealth Enhancement Group: asset sale versus stock sale tax treatment distinction, ordinary income exposure in asset sales.

[4–6] IRS Revenue Procedure 2025-32: 2026 long-term capital gains brackets, 20% top rate above $545,500 single / $613,700 MFJ. IRC Section 1411 NIIT 3.8% surtax. Texas effective combined federal rate near 23.8%.

[7–8] Cerulli Associates / Wiss: sellers deploying proceeds within 30 days report regret at significantly higher rates; 12 months post-liquidity event identified as highest-risk window for wealth erosion.

[9–16] Cornell LII / AE Tax Advisors / Anchor1031: IRC 263(c), Treas. Reg. 1.612-4 (IDC election); IRC 469(c)(3)(A) (working interest exception); IRC 461(h) (90-day economic performance rule); IRC 465 (at-risk limitation); IRC 57(a)(2)(A) and (E) (AMT preference); IRC 611 and 613A (percentage depletion); IRC 168(k) (bonus depreciation).

[17–18] American Petroleum Institute: U.S. oil and gas industry supported 10.6 million jobs and contributed $2.1 trillion to the U.S. economy in 2023; record 13.5 million barrels/day crude production in December 2024. U.S. EIA: U.S. marketed natural gas production on track for a record 122.5 Bcf/day in 2026, surpassing the prior record of 118.5 Bcf/day in 2025.