

A Practical Guide to Deploying Exit Proceeds, Reducing Tax Exposure, and Building a Diversified Capital Base

What business owners do with capital after the sale — from the closing table to a long-term capital strategy.

EXIT PLANNING | TAX STRATEGY | CAPITAL DEPLOYMENT

Introduction

A business sale, a recapitalization, or a large year-end distribution produces something most owners have not managed before: a single, concentrated pool of liquid capital that did not exist a month earlier. For years, the balance sheet question was simple. Capital stayed in the company, funded growth, and compounded inside a structure the owner controlled directly. The moment proceeds hit a bank account, that question changes shape entirely. Now the owner is managing a tax event, a deployment timeline, and a diversification decision all at once, often within the same calendar quarter.

The Concentration Reality

According to the Exit Planning Institute, **70 to 80 percent** of most business owners' net worth is concentrated in their company before a sale closes. Separate analysis puts that figure as high as **80 to 90 percent** for founder-operators who never diversified while building the business.

That concentration is not a mistake. It is simply what building an operating company requires. The problem only becomes visible the moment the company converts to cash.

Who This Guide Is For

- Exiting and post-exit founders
- Active CEOs and operators preparing for a future liquidity event
- PE-backed operators who received recapitalization proceeds while continuing to run the business

This guide does not promise outcomes or forecast returns. It explains, in plain terms, what happens to exit proceeds between the closing table and a long-term capital strategy, where the tax exposure actually sits, and what a disciplined sequencing framework looks like before capital is committed anywhere.

What You Will Learn in This Guide

Concentrated Wealth After Closing

Why concentrated, single-asset wealth does not disappear at closing. It simply changes form from equity to cash sitting exposed to a different set of decisions.

Asset Sale vs. Stock Sale

The structural difference between an asset sale and a stock sale, and why that distinction alone can change after-tax proceeds by a meaningful margin.

2026 Tax Backdrop

The current federal tax backdrop shaping 2026 deployment decisions, including capital gains brackets and the Net Investment Income Tax.

Sequencing Framework

A sequencing framework many advisors use to avoid deploying capital too quickly or leaving it idle too long.

IRC Section 263(c) Working Interest

How IRC Section 263(c) working interest treatment functions as a direct ownership alternative for owners seeking to convert tax exposure into an asset position, rather than simply reducing a bill.

Common Mistakes & Key Questions

Common sequencing mistakes sellers make in the first year after closing, and the questions worth raising with a tax advisor before any capital moves.

The Post-Sale Moment: Why Capital Decisions Compound Quickly

The period immediately following a liquidity event carries outsized consequences for long-term wealth preservation. Wiss, a national advisory firm that works extensively with business owners after a sale, identifies the twelve months following a liquidity event as the highest-risk period for wealth erosion, driven by a combination of tax miscalculation, rushed reinvestment, and lifestyle adjustments made before a plan exists. Morgan Stanley's research on post-sale financial planning found that roughly seven in ten owners end up relying on sale proceeds to fund their post-exit lifestyle, which raises the stakes on getting the sequencing right the first time, since there may not be a second liquidity event to correct course.

Part of the urgency comes from a simple mechanical reality: proceeds rarely arrive as a single clean number equal to the headline sale price. Escrow holdbacks, earnouts, and tax withholding all reduce what is actually available to deploy in year one.

55–75%

Year-One Deployable Cash

Owners typically net only 55 to 75 percent of the headline purchase price as deployable cash in the first year, after accounting for escrow holdbacks, taxes, and recapture.

5–15%

Escrow Holdbacks

Held for 12 to 18 months, reducing what is immediately available to deploy.

25%

Depreciation Recapture

Can run as high as 25 percent on certain asset classes, further reducing net proceeds.

60–80%

After-Tax Proceeds

Sofer Advisors found that after-tax proceeds across business sales typically range from 60 to 80 percent of gross enterprise value.

⚠ Research from Iconic on post-sale capital management found that owners typically net only 55 to 75 percent of the headline purchase price as deployable cash in the first year. The specific deal structure matters enormously to the final number an owner actually controls.

Asset Sale or Stock Sale: The Distinction That Shapes Everything Downstream

Before any deployment strategy makes sense, owners need clarity on what kind of sale actually occurred, because the tax treatment of proceeds differs substantially between the two most common structures.

Stock Sale

In a stock sale, the seller typically sells shares of the company directly, and proceeds are generally taxed at capital gains rates. This structure is generally preferred by sellers for its more favorable tax treatment.

Asset Sale

In an asset sale, the buyer purchases the underlying assets of the business, which can trigger ordinary income treatment on components like depreciation recapture, in addition to capital gains on goodwill and other intangible value. Buyers often prefer asset sales for their own tax reasons, which can shift a meaningful portion of the tax burden onto the seller unless it is negotiated in advance.

> Sofer Advisors quantifies the stakes directly: the choice between an asset sale and a stock sale structure can swing net proceeds by **$400,000 to over $1,000,000 on a $10 million transaction**, depending on the mix of ordinary income and capital gains triggered.

For C-corporations specifically, CT Acquisitions' 2026 guide to post-sale wealth management walks through a worked example in which an asset sale creates double taxation — corporate-level tax followed by shareholder-level tax on the distribution — producing a combined effective rate exceeding 50 percent on a $5 million sale. That same guide also notes that an ESOP rollover under IRC Section 1042 can allow qualifying C-corporation sellers to defer gain recognition indefinitely by reinvesting proceeds into qualified replacement property, a structure worth raising with a tax advisor well before a letter of intent is signed.

The point is not that one structure is universally better. It is that the structure determines the size of the number an owner is actually deploying, and that number should be confirmed with a tax professional before any capital allocation decision is made — not after.

The 2026 Tax Backdrop Shaping Deployment Decisions

Deployment decisions do not happen in a vacuum. They happen against a specific federal tax environment that determines how much of a given gain an owner actually keeps.

2026 Long-Term Capital Gains Brackets

Under IRS Revenue Procedure 2025-32, the 2026 long-term capital gains brackets are structured as follows:

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

Most owners completing a meaningful liquidity event will land in the top bracket. Layered on top of the 20 percent federal rate is the **3.8 percent Net Investment Income Tax** under IRC Section 1411, bringing the effective federal rate on a large capital gain to roughly **23.8 percent** before state tax.

Additional Mechanisms to Understand

Section 1202 QSBS: Can allow eligible sellers to exclude up to $10 million, or 10 times basis, of gain from federal tax, subject to strict holding period and entity eligibility requirements confirmed well in advance of a sale.

IRC Section 351: For owners who roll a portion of proceeds into private equity sponsor equity, that rollover portion — often 10 to 30 percent of total consideration — can qualify for tax deferral, with the remaining consideration frequently structured as an earnout paid over one to three years.

None of these figures are static from year to year, and none of them substitute for a return prepared with current-year guidance.

State treatment varies considerably, which is why state residency planning is frequently raised alongside federal tax planning in post-sale advisory conversations.

A Framework for Sequencing the Decision

One of the most consistent findings in post-sale research is that speed, not caution, is the more common mistake. A 2026 study referenced by CT Acquisitions, drawing on Cerulli Associates research, found that **68 percent of sellers who deployed proceeds within 30 days of closing later regretted the pace of that decision.** At the same time, Wealth Enhancement Group identifies "cash drag" — capital sitting idle in low-yield accounts for an extended period while an owner deliberates — as its own distinct cost, since idle capital earns little while inflation and opportunity cost continue to erode its purchasing power.

A commonly used resolution to this tension is a bucketed sequencing approach, outlined in CT Acquisitions' 2026 guide and echoed by Class VI Partners' research on post-sale reinvestment. The framework generally divides proceeds into three categories:

1

1. Reserve Capital

Funds set aside to cover near-term tax liability, living expenses, and an emergency buffer — typically held in low-volatility, highly liquid instruments. This bucket is sized **first**, before any other deployment decision is made, because tax liability on the sale itself is often due well before the owner has fully reinvested the proceeds.

2

2. Income-Generating Capital

Capital allocated to assets expected to produce consistent cash flow, used to replace some portion of the operating income the owner previously drew from the business.

3

3. Growth & Diversification Capital

Capital allocated to longer-horizon positions intended to rebuild wealth outside the concentrated position the owner just exited — which may include new ventures, real assets, or direct ownership structures outside public markets.

Class VI Partners' research specifically recommends capping allocation to higher-conviction, less liquid opportunities — rather than deploying a large single-position bet immediately after a sale — precisely because the owner has just experienced the downside of concentration and the goal of post-sale planning is to reduce that exposure, not recreate it in a different asset.

Working Interest Participation and IRC Section 263(c): A Direct Ownership Alternative

For owners specifically weighing how to address current-year tax exposure while also diversifying out of a single concentrated holding, direct working interest participation in oil and gas development represents a structurally distinct option worth understanding on its own terms.

IRC Section 263(c) — Intangible Drilling Costs (IDC)

Under IRC Section 263(c) and the supporting Treasury Regulation 1.612-4, a taxpayer who holds an operating or working interest — a direct ownership position carrying both the cost and production rights of a well, rather than a royalty or passive carried interest — may elect to currently deduct intangible drilling costs (IDC). Intangible drilling costs generally include labor, fuel, chemicals, and other expenditures with no salvage value once incurred.

Tangible drilling costs (TDC), covering equipment with residual value such as casing, tubing, and wellheads, are generally capitalized and recovered over time, including through depreciation provisions under IRC Section 168(k), which the One Big Beautiful Bill Act made permanent for qualifying property placed in service after January 19, 2025. The actual allocation between IDC and TDC on any given well is specific to that well's engineering and authorization-for-expenditure documentation, and the applicable tax treatment depends on that allocation, the taxpayer's individual circumstances, and current professional tax guidance. No flat percentage applies uniformly across all wells or all structures.

IRC Section 469(c)(3)(A) — Passive Activity Loss Exception

A second, often overlooked feature of working interest ownership relates to how losses are treated. Under IRC Section 469(c)(3)(A), a working interest in an oil and gas property held directly — through a structure that does not limit the owner's liability such as a general partnership position rather than a limited partnership or limited liability company interest — is statutorily excepted from the passive activity loss rules that otherwise restrict most losses to offsetting only income the tax code classifies as passive.

This is a meaningful distinction from real estate limited partnerships or most fund structures, which generally remain subject to the passive loss limitation and the material participation test. The direct-holding requirement is strict: moving the same economic interest into a liability-limiting entity can cause the position to lose this treatment, which is why the specific ownership structure — not just the asset class — determines tax treatment.

IRC Section 461(h) — Year-End Planning Window

A third provision, IRC Section 461(h), allows a narrow exception to the general economic performance requirement for expenditures tied to drilling that commences within 90 days of a calendar year-end payment — part of why working interest participation is frequently evaluated during fourth-quarter tax planning.

> **Summit Ventures** operates as an entrepreneurial joint venture platform built around this exact ownership structure. Business participants who contribute capital become working interest owners holding a direct position in producing or development-stage wells — not a passive fund interest or a certificate representing someone else's operation. Governance rights, operating agreement terms, and reporting are structured so that participants can see how capital is deployed and how the underlying assets perform, consistent with the direct-holding framework described above.

For an owner who has just converted a concentrated equity position into cash, this structure offers a way to address current tax exposure on business income or distributions while simultaneously establishing a new, physically tangible asset position outside the operating company that was just sold or recapitalized. It is one option among several discussed in this guide, not a universal solution, and suitability depends entirely on the participant's individual tax position, risk tolerance, and the specific terms of a given working interest offering.

Common Mistakes, Best Practices & Key Questions

Tips and Best Practices

- **Size your reserve bucket first.** Tax liability on the sale itself typically comes due before a new capital strategy has had time to produce anything.
- **Confirm your sale structure in writing.** Have your CPA model both the federal and state tax consequences before signing — not after.
- **Treat escrow holdbacks as part of your deployment calendar.** Capital you do not yet control should not be assumed into a near-term allocation plan.
- **Separate the tax-offset decision from the diversification decision.** They often point toward the same structure, but they are not the same analysis, and conflating them can lead to oversized allocations made for the wrong reason.
- **Revisit state residency before closing.** State tax treatment of a large gain can vary by double digits depending on where you are taxed.
- **Document working interest ownership structure carefully.** Whether a position is held directly or through a liability-limiting entity determines its tax treatment under Section 469(c)(3), and that detail should be confirmed in writing before capital is contributed.

Common Mistakes to Avoid

Deploying Too Quickly

The 68 percent regret rate among owners who deployed within 30 days of closing suggests that speed is more often a liability than an advantage in the first months after a sale.

Leaving Capital Idle Too Long

The opposite mistake carries its own cost. Extended cash drag quietly erodes purchasing power while a plan is finalized.

Treating Sale Structure as a Closing-Table Detail

By the time the purchase agreement is signed, much of the flexibility to change this structure has already disappeared.

Assuming One Strategy Solves Both Problems

A reduction in current-year tax liability and genuine diversification outside a single operating business are related goals, but they require separate evaluation criteria.

Moving Working Interest Into a Liability-Limiting Entity

Without confirming the effect on Section 469(c)(3) treatment. The ownership structure — not the asset class alone — determines whether the passive loss exception applies.

Skipping the State Tax Conversation

Owners frequently focus exclusively on federal capital gains exposure and overlook that state treatment of the same gain can differ enormously depending on residency at the time of sale.

Questions to Raise With Your Advisory Team

01

Was this transaction structured as an asset sale or a stock sale, and what is the modeled tax consequence of each under current federal and state law?

02

What percentage of the headline purchase price will actually be available as deployable cash in year one, after escrow, earnouts, and tax withholding?

03

What is my projected marginal federal bracket and Net Investment Income Tax exposure for the year the sale closes, and does that change the optimal timing of any deduction-generating strategy?

04

Does any portion of this transaction qualify for Section 1202 Qualified Small Business Stock treatment, Section 1042 ESOP rollover treatment, or Section 351 deferral on rollover equity?

05

If I am evaluating a working interest position for current-year tax purposes, is the ownership structure being offered a direct holding that preserves Section 469(c)(3) treatment, or a liability-limiting entity that would not?

06

What does my reserve bucket need to cover, and over what time horizon, before any capital is allocated to income-generating or growth-oriented positions?

07

How does my state of residency at the time of closing affect the total tax owed on this transaction, and is there a planning window to address that before the sale closes?

Moving Forward With a Deployment Plan

The period after a business sale or recapitalization is not simply a financial event. It is a structural transition from an owner who controlled a single operating asset to someone managing a diversified capital position for the first time, often under real time pressure created by tax deadlines and escrow schedules. The research is consistent on one point above all others: owners who build a sequencing plan before capital moves — rather than reacting deal by deal in the weeks after closing — are the ones who report the most confidence in their outcomes a year later.

Understanding the mechanics covered in this guide — the asset sale versus stock sale distinction, the current capital gains and Net Investment Income Tax environment, the reserve-income-growth framework, and the specific statutory treatment available to direct working interest owners under Sections 263(c) and 469(c)(3) — gives an owner the vocabulary to have a precise conversation with a CPA and tax attorney before any capital is committed.

> For owners whose post-sale planning includes addressing current-year tax exposure on business income or distributions while also establishing a new, tangible asset position outside the business that was just sold, **Summit Ventures' entrepreneurial joint venture structure** offers one avenue to evaluate as part of that broader plan — built on direct working interest ownership, operational transparency, and governance rights rather than a passive fund interest.

The next step, as with every decision outlined here, is a conversation with your own advisory team about how these mechanics apply to your specific transaction.

Ready to Explore Your Options?

Connect with the Summit Ventures team to discuss how direct working interest ownership may fit into your post-sale capital strategy.

Explore Summit Ventures

Sources and References

Exit Planning Institute, cited via Harford Financial Group: "70–80% of most business owners' wealth is wrapped up in their company." | **Modern Wealth**: 80 to 90 percent concentration statistic for founder-operators.

Wiss, "Wealth Management for Business Owners After a Sale": 12-month highest-risk window for wealth erosion. | **Morgan Stanley**, "Financial Planning for Life After Selling a Business": seven in ten owners rely on sale proceeds for post-exit lifestyle.

Iconic, "Managing Proceeds After Business Sale": 55 to 75 percent year-one deployable cash; escrow holdbacks of 5 to 15 percent held 12 to 18 months; depreciation recapture up to 25 percent. | **Sofer Advisors**: 60 to 80 percent after-tax proceeds; $400,000 to over $1,000,000 swing between asset and stock sale on a $10 million transaction.

Wealth Enhancement Group: asset sale vs. stock sale tax treatment; cash drag concept. | **CT Acquisitions**, "Wealth Management After a Business Sale: 2026 Guide": reserve-income-growth bucket framework; C-corporation double taxation; Section 1042 ESOP rollover. | **Cerulli Associates** (cited via CT Acquisitions): 68 percent regret rate for 30-day deployers.

Class VI Partners: capped allocation framework. | **IRS Revenue Procedure 2025-32**: 2026 long-term capital gains brackets. | **IRC Sections 1411, 1202, 351, 263(c), 469(c)(3)(A), 461(h), 168(k)** and supporting guidance. | **Grant Thornton**: One Big Beautiful Bill Act, signed July 4, 2025, making 100% bonus depreciation permanent for qualifying property placed in service after January 19, 2025.

American Petroleum Institute: U.S. oil and natural gas industry supported 10.6 million jobs and contributed $2.1 trillion to the U.S. economy in 2023; record U.S. crude production of 13.5 million barrels per day in December 2024. | **U.S. Energy Information Administration**: U.S. marketed natural gas production on track for a record 122.5 Bcf per day in 2026.