

What Business Owners Do With Capital After the Sale

A Practical Guide to Deploying Exit Proceeds, Understanding Tax Exposure, and Building a Post-Sale Capital Framework

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Introduction

A business sale, recapitalization, or large owner distribution is often the single largest financial event of an operator's career. Yet the weeks that follow closing rarely come with a playbook. The wire lands, the tax clock starts running, and the owner who spent years building enterprise value now faces a different kind of decision: what to do with capital that, until recently, was tied up in operations, inventory, equipment, or equity.

This guide is written for exiting and post-exit founders, active CEOs and operators who have not yet reached a liquidity event, and PE-backed operators and recapitalized founders who received a partial cash-out while retaining rollover equity. Each of these groups shares a common condition: a large share of personal net worth has been concentrated in one operating business, and a taxable event, whether realized or approaching, now requires a deliberate capital plan rather than a reactive one.

The purpose of this guide is educational. It walks through how concentration risk builds during the years a business is owned, how the tax code treats different forms of exit proceeds, and what a structured framework for deploying that capital can look like once the transaction closes. It is not a solicitation and it does not predict outcomes. It is a starting point for the conversation an owner should be having with a CPA, tax attorney, and wealth advisor before capital is deployed anywhere.

Exiting Founders

Post-sale owners navigating a new capital reality for the first time

Active CEOs & Operators

Leaders approaching a liquidity event who need a pre-closing plan

PE-Backed Operators

Recapitalized founders with rollover equity and partial cash-out proceeds

The Concentration Problem Does Not End at Closing

Most owners spend a career building concentration, not managing it. According to the Exit Planning Institute, **70 to 80 percent** of a typical business owner's net worth is tied up in the company itself. Other industry data places that figure closer to **80 to 90 percent** once retirement accounts and real estate holding entities tied to the operating business are included. Either way, the pattern is the same: one illiquid asset represents the overwhelming majority of personal wealth for years, sometimes decades.

A sale or recapitalization event is frequently misread as the moment concentration risk ends. In practice, it is often the moment concentration risk *changes shape*. A wire transfer that converts equity into cash does not automatically convert into a diversified position. Left uninvested or parked in a single reinvestment vehicle, that capital simply trades one form of concentration for another, often while sitting in low-yield accounts that lose purchasing power to inflation while the owner decides what to do next.

Research on post-sale wealth management consistently identifies the twelve months following a liquidity event as the highest-risk period for wealth erosion. This is not because the capital itself is unstable. It is because decisions made under time pressure, without a sequencing plan, tend to be reactive: a rushed reinvestment, an advisor relationship formed in haste, or simply cash sitting idle while a large tax bill approaches. One widely cited **2024 Cerulli Associates** finding reports that **68 percent of sellers who deployed proceeds within 30 days of closing** later said they regretted the pace of that decision.

⚠ Layered on top of the concentration question is the tax question — and the two compound each other. An owner who has not planned for the tax character of the proceeds can end up deploying capital that was never actually available to deploy once the return is filed.

80%

Net Worth Concentration

Typical share of a business owner's wealth tied to a single illiquid operating asset

68%

Deployment Regret

Sellers who deployed proceeds within 30 days of closing and later regretted the pace

12mo

Highest-Risk Window

The period following a liquidity event most associated with wealth erosion

What the Reader Will Learn

By the end of this guide, a business owner or operator should understand:

1 **Concentration Risk After the Sale**

Why concentration in a single operating business creates a specific kind of financial exposure, and why that exposure does not disappear the moment a sale closes.

2 **Structural Tax Differences**

The structural tax difference between an asset sale, a stock sale, and an ordinary distribution, and why that distinction materially changes how much of a headline price actually becomes deployable cash.

3 **Tax Mechanics & Planning Tools**

The basic mechanics of long-term capital gains brackets, the Net Investment Income Tax, and planning tools such as Qualified Small Business Stock exclusion and rollover equity deferral.

4 **The Three-Bucket Framework**

A practical, three-bucket framework many advisors use to sequence capital deployment rather than rushing it.

5 **IRC Section 263(c) Treatment**

How intangible drilling cost treatment functions as one option among several for owners evaluating where to direct a portion of current-year taxable proceeds.

How the Tax Code Treats Different Forms of Exit Proceeds

Before any deployment plan makes sense, an owner needs clarity on what kind of proceeds they are actually receiving, because the tax code treats them very differently.

Asset Sale vs. Stock Sale

In an asset sale, a buyer purchases specific assets and assumes specific liabilities. Depreciation recapture on equipment and real property is typically taxed at ordinary income rates, which can reach up to 25 percent on certain recaptured amounts, in addition to capital gains treatment on goodwill and other qualifying assets. In a stock or equity sale, the seller disposes of the ownership interest itself, and more of the proceeds may qualify for long-term capital gains treatment, assuming the holding period and other requirements are met. This distinction is typically negotiated, not assumed, well before a letter of intent is signed, since it can shift net proceeds meaningfully on a comparable transaction size.

Pass-Through Distributions vs. One-Time Sale

Active CEOs and operators who have not yet reached a liquidity event often face a related but distinct problem: high, recurring pass-through income from an S-corp or partnership structure that generates a large tax bill every year, without a single transaction to plan around. For this group, the deployment question is less about a lump sum and more about recurring, year-end tax-offset planning against active business income.

Rollover Equity & Earnouts

In many private equity recapitalizations, the seller retains an equity stake in the go-forward entity, commonly structured as 10 to 30 percent of total consideration, often deferring gain recognition under Section 351 until that rollover equity is later sold. Earnouts, structured as contingent future payments tied to performance, typically represent another 10 to 30 percent of consideration paid over one to three years. Both structures mean the headline price of a transaction and the actual deployable cash in year one can differ substantially.

Long-Term Capital Gains Brackets (2026)

Under IRS Revenue Procedure 2025-32: the **0% rate** applies up to $49,450 single / $98,900 MFJ; the **15% rate** applies up to $545,500 single / $613,700 MFJ; gains above those thresholds are taxed at **20%**. Most owners completing a meaningful exit will land in the top bracket for at least a portion of the gain.

Net Investment Income Tax (IRC §1411)

An additional **3.8% surtax** applies to net investment income above certain income thresholds, which can stack the effective federal rate on a large gain to **23.8%** before any state tax is applied. Owners who materially participated in the business may have planning options around how this applies to the sale gain itself.

Qualified Small Business Stock (§1202)

Section 1202 allows certain owners of qualifying C-corporation stock to exclude up to **$10 million, or 10 times basis if greater**, of gain from federal tax, subject to a holding period and eligibility requirements that vary by state conformity. This is one of the more consequential pre-closing questions an owner's tax counsel should evaluate — ideally before a letter of intent, not after.

Taken together, these mechanics explain why many owners net somewhere between **55 and 80 percent** of a transaction's gross enterprise value as actual year-one deployable cash, once escrow holdbacks, taxes, and transaction costs are accounted for. The exact figure depends entirely on deal structure, state of residency, and individual tax position.

A Framework for Sequencing the Decision

Advisors who specialize in post-exit wealth management frequently describe deployment in terms of three buckets rather than a single decision:

1. Reserve

Capital set aside for near-term liquidity needs: estimated tax payments, living expenses, and an emergency reserve sized to the owner's new circumstances. This bucket is deliberately conservative and deliberately small relative to total proceeds.

2. Income

Capital directed toward assets expected to generate current cash flow, diversified away from the operating business that previously represented most of the owner's net worth. This is typically where an owner begins rebuilding a diversified base after years of concentration.

3. Growth & Opportunity

A capped allocation, set as a percentage of total proceeds rather than an open-ended commitment, directed toward higher-conviction opportunities: new ventures, direct asset ownership, or other illiquid positions the owner has specific knowledge of or interest in. Advisors generally recommend capping this bucket explicitly before capital arrives.

This framework does not prescribe a specific allocation. It exists to slow down the decision long enough for tax character, liquidity needs, and diversification goals to be evaluated together, rather than in isolation or under deadline pressure. The regret documented in the Cerulli research tends to concentrate in decisions made without this kind of structure.



Working Interest Participation & IRC 263(c): One Tool Among Several

For owners and operators evaluating where current-year surplus corporate capital or personal distributions might be directed, direct working interest participation in oil and gas development is one structure worth understanding alongside the reserve, income, and growth decisions already described.

The IRC 263(c) Election

Under IRC Section 263(c) and the operator definition at 26 CFR 1.612-4, a party holding a working or operating interest — whether as a fee owner or under a lease or similar contract granting working or operating rights — may elect to currently deduct intangible drilling costs (items such as labor, fuel, and site preparation that have no salvage value) rather than capitalizing them. Tangible drilling costs (items like casing and wellhead equipment that retain salvage value) are typically depreciated rather than currently expensed, subject to IRC Section 168(k) bonus depreciation, which the One Big Beautiful Bill Act made permanent at 100 percent for qualifying property placed in service after January 19, 2025.



The Passive Activity Exception (§469(c)(3)(A))

IRC Section 469(c)(3)(A) excludes a working interest in an oil or gas property, held directly or through an entity that does not limit the taxpayer's liability, from the passive activity rules that apply to most other outside arrangements. This is a meaningfully different structure than a limited partnership interest or a fund share, both of which generally limit liability and therefore fall under passive-loss treatment, restricting losses to offsetting only other passive income.

A properly structured direct working interest position allows the owner — subject to the at-risk rules under IRC Section 465 and the 90-day economic performance requirement under IRC Section 461(h) — to potentially apply those deductions against active business income or ordinary distributions in the same tax year.

The applicable tax treatment for any specific capital contribution depends on the IDC and TDC allocation confirmed in the authorization for expenditure for that project, the owner's individual tax position, and current professional tax guidance. No single percentage of deductibility applies uniformly across projects or participants, and this guide does not state one. What is consistent — and documented in the statute itself — is the classification: a direct working interest, properly structured, is treated differently than a passive fund interest under the tax code.

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 economy in 2023

13.5M

Barrels Per Day

Record U.S. crude oil production reached in December 2024

122.5B

Cubic Feet/Day

Projected record U.S. marketed natural gas production average in 2026 (EIA)

Summit Ventures operates as an entrepreneurial joint venture platform structured around direct working interest ownership. Business participants who contribute capital become working interest owners with governance rights and operational transparency into the specific wells and development programs their capital supports, rather than holders of a fund share in a pooled, blind structure. This distinction — direct ownership rather than fund participation — is the same distinction that determines how Section 469(c)(3)(A) applies in the first place.

A Practical Example of the Sequencing Decision

Consider an illustrative, non-specific scenario: an owner completes a partial recapitalization, retaining rollover equity in the go-forward entity while receiving a cash distribution at closing. The owner's tax advisor confirms that a portion of the cash distribution will be taxed as ordinary income due to depreciation recapture on business equipment, with the remainder taxed at long-term capital gains rates, and that the full gain will also be subject to the 3.8 percent Net Investment Income Tax unless a material participation exception applies.

1

Reserve for Tax

Set aside a portion for the coming year's estimated tax payment before any other deployment decision is made

2

Diversified Income

Allocate a portion toward diversified income-generating assets to begin rebuilding a non-concentrated base

3

Evaluate 263(c)

Evaluate a capped allocation toward a direct working interest capital contribution before year-end to offset ordinary income from recapture

This example is illustrative only. It does not represent a specific dollar figure, deduction amount, or outcome, and it is not a guarantee of tax treatment for any individual's circumstances. It is included to demonstrate how the sequencing framework and the 263(c) mechanism described above might be evaluated together — not separately — by an owner's actual advisory team.

Tips, Common Mistakes & Questions for Your Advisors

✅ Best Practices

- Confirm deal structure (asset sale versus stock sale) and its tax implications with counsel **before the letter of intent is signed**, not after closing. This decision is far harder to revisit once terms are set.
- Build the reserve bucket first. A tax bill that arrives before capital has been deployed with intention is the single most common driver of rushed decisions.
- Treat the growth and opportunity bucket as capped and defined in advance, not as a residual catch-all for whatever capital remains once the easier decisions are made.
- Evaluate Qualified Small Business Stock eligibility and Section 1042 ESOP rollover options with tax counsel before a transaction closes, since both carry eligibility windows and holding period requirements.
- Request documentation — specifically the authorization for expenditure and the IDC and TDC allocation — before evaluating any direct working interest capital contribution, rather than relying on general industry figures.
- Revisit the deployment framework annually rather than treating it as a one-time exercise, particularly for active CEOs and operators managing recurring pass-through income rather than a single transaction.

⚠️ Common Mistakes

- Deploying the full proceeds immediately — often into a single reinvestment vehicle — before confirming the actual tax liability due on the transaction.
- Treating the headline sale price as the deployable amount, without adjusting for escrow holdbacks, recapture, NIIT, and transaction costs.
- Assuming all exit proceeds receive the same tax treatment, when asset sales, stock sales, rollover equity, and earnouts are each governed by different rules.
- Selecting a reinvestment structure based on a stated yield or return figure alone, without evaluating the underlying ownership structure, governance rights, and whether liability is limited or unlimited — which determines how the position is taxed.
- Waiting until the fourth quarter to evaluate current-year tax-offset opportunities, when documentation requirements such as a confirmed AFE often require lead time ahead of year-end.

Questions to Discuss With Your Advisors

1. Given the specific structure of my transaction (asset sale, stock sale, or distribution), what portion of my proceeds is actually taxed as ordinary income versus long-term capital gains?
2. Does my situation qualify for Section 1202 QSBS exclusion, Section 1042 ESOP rollover, or any other gain deferral mechanism, and was that evaluated before closing?
3. What is my realistic, after-tax, deployable cash figure in year one, after escrow holdbacks and estimated tax payments are set aside?
4. How should the reserve, income, and growth buckets be sized for my specific liquidity needs and risk tolerance?
5. If I am evaluating a direct working interest capital contribution, what does the authorization for expenditure show for the IDC and TDC allocation on the specific program under consideration, and how does that interact with my at-risk basis and overall tax position this year?
6. Am I evaluating any reinvestment structure based on its actual ownership rights and governance structure, or only on a stated return figure?

Moving Forward With a Deployment Plan

A business sale or recapitalization closes the chapter on building one concentrated asset. What comes next is an open question, and the owners who navigate it most effectively tend to treat it as a structured decision rather than a single transaction to get behind them. Understanding the tax character of the proceeds, sizing a reserve before anything else, and evaluating growth and diversification opportunities against a capped framework rather than an open-ended one are the foundational steps — regardless of which specific assets eventually receive the capital.

Direct working interest participation under IRC Section 263(c) is one option within that broader framework, relevant specifically for owners with current-year ordinary income or active distributions they are evaluating against legitimate, statute-based deduction mechanics — not a generic alternative to sound planning. Summit Ventures operates as an entrepreneurial joint venture platform built around direct working interest ownership, governance rights, and operational transparency for business participants evaluating this structure as part of their own deployment plan. Owners considering this path should bring the same documentation and advisory rigor to that evaluation as they would to any other component of their post-sale capital strategy.

Sources & References

Exit Planning Institute · Modern Wealth · Wiss · Morgan Stanley · Iconic · Sofer Advisors · CT Acquisitions · Wealth Enhancement Group · Class VI Partners · IRS Rev. Proc. 2025-32 · 26 U.S.C. §§ 1411, 1202, 469, 263, 461, 465, 57 · 26 CFR §1.612-4 · Warren Averett · Cornell Law LII · Anchor1031 · Weaver · Grant Thornton · American Petroleum Institute · U.S. Energy Information Administration

> The owners who navigate post-sale capital most effectively treat it as a structured decision — not a single transaction to get behind them.

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Learn About Direct Working Interest