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 CASE | POST-EXIT CAPITAL ALLOCATION | CONSIDERATION-STAGE EVALUATION

This profile is an illustrative, composite case built from common post-exit patterns among middle-market manufacturing owners. It is not a named Summit Ventures participant, and no dollar figures, deduction amounts, or performance outcomes described below should be read as a guarantee, projection, or typical result. All tax mechanics referenced are statutory in nature and require confirmation from a qualified CPA before any capital allocation decision.

Case Classification & At-a-Glance Summary

Case Type

Post-exit capital allocation, illustrative composite, consideration-stage evaluation

Industry

Light industrial manufacturing, Dallas-Fort Worth metro

Trigger Event

Full stock sale of a privately held manufacturing company to a strategic acquirer

Decision Window

Approximately 90 days from close to initial capital deployment

Core tension: A single, large, fully taxable liquidity event versus the standing instinct to keep capital working in operating assets the owner understands and controls.

Participant Profile, Trigger, and Situation

The participant built and ran a precision manufacturing business for just over a decade before agreeing to a full stock sale. The transaction closed in the first quarter, converting a company that had represented the overwhelming majority of the owner's net worth into a single wire transfer. This pattern is well documented: research from the Exit Planning Institute finds that 70 to 80 percent of a typical business owner's net worth sits inside the company itself, and a separate concentration risk analysis puts that figure as high as 80 to 90 percent for founders who have not actively diversified before a sale.

Stock Sale Advantage

Because the transaction was structured as a stock sale rather than an asset sale, the gain was taxed at long-term capital gains rates rather than ordinary income — a distinction that materially changes the tax outcome of a transition event and one every seller should confirm with counsel well before signing a letter of intent.

Federal Tax Exposure Stack

Even with favorable capital gains treatment, the federal exposure was substantial. Under 2026 federal brackets, long-term capital gains above the top threshold are taxed at 20 percent, and gains attributable to net investment income carry an additional 3.8 percent surtax under IRC Section 1411, producing a combined federal exposure near **23.8 percent** before any state-level tax.

Texas has no state income tax, so the exposure in this case was the federal stack alone — but a seller closing the same transaction while domiciled in a high-tax state could see total exposure shift materially, since residency planning alone can move after-tax proceeds by 8 to 15 percent of gross sale value.

The owner also faced the well-documented 12-month post-liquidity window that wealth management research flags as the highest-risk period for erosion of sale proceeds, driven by a mix of lifestyle inflation, rushed reinvestment, and idle cash sitting in low-yield accounts. A frequently cited industry statistic found that 68 percent of sellers who deploy proceeds within 30 days of close later regret the speed of that decision. That data point shaped this participant's approach directly: rather than redeploying immediately, the first 90 days were used deliberately for evaluation.

80%

Net Worth Concentration

Typical business owner net worth concentrated inside the operating company pre-sale

23.8%

Federal Tax Exposure

Combined federal rate: 20% LTCG + 3.8% NIIT under IRC Section 1411

68%

Deployment Regret

Sellers who deploy proceeds within 30 days of close and later regret the speed of that decision

Challenge and Decision Criteria

The central challenge was not simply where to put the money. It was reconciling three competing instincts at once:

1 Retain Operating Control

The desire to retain some form of operating control and direct involvement rather than becoming a passive check writer

2 Reduce Tax Liability

The need to materially reduce a large, immediate federal tax liability using a legitimate statutory mechanism rather than an aggressive or unsupported scheme

3 Avoid Concentration Risk

The requirement to avoid recreating the same concentration risk the sale had just eliminated by placing all proceeds into one new single-asset position

Decision Criteria

Active Income Offset

Whether a given structure preserved the ability to offset active income, not just passive income, under existing tax law

Governance Rights

Whether the participant would retain governance rights and operational visibility rather than a purely silent position

Tangible Asset Class

Whether the underlying asset class was tied to a tangible, producing enterprise rather than a paper security

No New Concentration Risk

Whether the structure avoided adding a second layer of single-point concentration risk

Goals and Solution

Participant's Stated Goals

The participant's stated goals, consistent with this ICP segment generally, were to:

- Pursue a legally sound reduction in near-term tax exposure
- Diversify meaningfully out of a single operating business and into a different asset class
- Establish a long-term, inflation-aware cash flow source outside the manufacturing sector entirely
- Redeploy a portion of exit proceeds into a structure that still rewarded active oversight rather than pure passivity

Paths Evaluated

- Diversified securities account
- Passive real estate limited partnership
- Qualified opportunity fund
- **Direct working interest position in an operating oil and gas program through Summit Ventures' entrepreneurial joint venture structure ✓ Selected**

Why the Working Interest Structure Won

The structural distinction mattered. A working interest held directly, or through an entity that does not limit the owner's liability, falls outside the definition of a passive activity under IRC Section 469(c)(3)(A). That statutory carve-out is the mechanism that allows qualifying intangible drilling cost deductions under IRC Section 263(c) to offset active income — including the kind of concentrated capital gain generated by a business sale — rather than being trapped against passive income only, as is the case with most real estate limited partnership losses once they exceed the phase-out thresholds in IRS Publication 925. The participant's CPA confirmed the entity structure used preserved this treatment before any capital was contributed.

Governance was a second deciding factor. Rather than accepting a silent limited partner position, the participant took on a working interest owner role with governance rights tied to the joint operating agreement, including visibility into authorizations for expenditure, well-level reporting, and operator decisions. This aligned with the stated goal of staying an active business participant rather than a purely hands-off capital source.

Implementation: The 90-Day Timeline



Days 1–30: Diligence

Reviewing the joint operating agreement, confirming the 263(c) and 469(c)(3) tax mechanics with outside counsel and a CPA, and evaluating the specific well program's authorization for expenditure — which breaks out the intangible cost component (labor, drilling fluids, site preparation) from the tangible equipment component (casing, wellhead, tubing) that depreciates separately under the applicable MACRS schedule.

Days 31–60: Entity Formation

Entity formation and capital contribution, structured specifically to preserve the direct-holding or unlimited-liability requirement under 469(c)(3)(A), along with a parallel review of the at-risk limitation under IRC Section 465 and the alternative minimum tax treatment of excess intangible drilling costs under IRC Section 57(a)(2) — both of which a qualified tax professional must model against the participant's full year income picture rather than the well program in isolation.

Days 61–90: Active Participation

Onboarding into the joint venture's governance and reporting cadence, and a documented redevelopment and workover program applied to existing producing wellbores with an established production baseline — rather than a purely speculative exploration program. This operational detail mattered to a participant whose entire career had been built on understanding physical production processes rather than financial abstractions.

Illustrative Mechanics Summary

This section describes mechanics only, not a performance claim. The participant's capital contribution was structured to qualify, in part, for treatment as a deductible intangible drilling cost under Section 263(c), which the Internal Revenue Code and Treasury Regulation 1.612-4 permit an operator — defined as a fee owner or holder of a working or operating interest — to elect to expense rather than capitalize. The specific percentage of any given contribution that qualifies as intangible versus tangible cost depends entirely on that program's authorization for expenditure and cannot be stated as a fixed industry-wide figure.

Separately, the tangible equipment component became eligible for accelerated cost recovery, including 100 percent bonus depreciation made permanent under 2025 federal budget reconciliation legislation amending IRC Section 168(k). Percentage depletion under IRC Sections 611 and 613A may also apply to future production income, subject to independent producer limitations. None of these mechanics produce a guaranteed dollar outcome, and the actual tax benefit in any individual case depends on the specific well program, the participant's full tax position, and confirmation by a qualified CPA.

Decision Factor	Mechanism Applied	Statutory / Structural Basis
Active income offset eligibility	Direct working interest holding, no liability-limiting entity layer	IRC Section 469(c)(3)(A)
Deductible cost classification	Intangible drilling cost election at the operator level	IRC Section 263(c), Treas. Reg. 1.612-4
Equipment cost recovery	Tangible drilling cost depreciation, including bonus depreciation	IRC Section 168(k), as amended by 2025 reconciliation legislation
Loss limitation screening	At-risk capital confirmation prior to contribution	IRC Section 465
AMT exposure review	Independent producer preference-item analysis	IRC Section 57(a)(2)
Future production income treatment	Percentage depletion evaluation	IRC Sections 611 and 613A
Governance and operational visibility	Joint operating agreement participation rights	Entrepreneurial joint venture structure, Summit Ventures

Representative Perspective

> "I had spent fifteen years making decisions about machines, people, and production schedules. I was not interested in writing a check and then reading a quarterly letter from a fund manager I had never met. What made sense to me was a structure where I still had visibility into what was being spent and why, and where the tax mechanics were based on an actual operating role rather than a passive allocation."

This composite statement reflects themes commonly expressed by exiting manufacturing owners evaluating direct energy participation, and is not an attributed quote from a real individual.

Assumptions and Key Takeaways

This case assumes a stock sale with clean long-term capital gains treatment, a Texas domicile with no state income tax layer, and a participant who contributed identical dollar amounts whether comparing this structure against a passive real estate limited partnership or a diversified securities account. It assumes the participant's CPA confirmed entity structure, at-risk basis, and AMT exposure before contribution — which is a required step, not an optional one.

Structural Takeaway

The tax treatment available to a working interest owner depends on the classification of the activity under existing statute, not on the owner's income bracket or hours worked — a meaningfully different mechanism than the participation thresholds and phase-outs that govern passive real estate losses.

Behavioral Takeaway

The 90-day evaluation window, rather than an immediate reinvestment, aligned with documented research on post-exit decision regret and gave the participant time to confirm mechanics with professional advisors rather than reacting to deal fatigue.

Questions for Evaluation

Working through these questions with a tax advisor, attorney, and the operator directly is the appropriate next step before any capital contribution is made.

Section 469(c)(3)(A) Preservation

Does the proposed structure preserve direct holding or an unlimited-liability entity form sufficient to maintain the Section 469(c)(3)(A) exception, or does it default to passive treatment?

At-Risk Basis and AMT Modeling

Has a CPA modeled the at-risk basis under Section 465 and the AMT preference-item exposure under Section 57(a)(2) against the participant's full year income — not just the well program in isolation?

Governance and Reporting Rights

What governance rights, reporting cadence, and authorization for expenditure visibility does the structure provide relative to a silent limited partner position?

Concentration Risk Avoidance

Does the allocation avoid recreating single-asset concentration risk relative to the business just sold?

Production History and Redevelopment Plan

What is the documented production history and redevelopment plan for the specific wells involved, rather than a purely speculative exploration program?

Moving Forward with Summit Ventures

The pattern illustrated here is not unique to manufacturing, but it is especially common among operators whose entire professional identity was built around tangible production, physical assets, and direct oversight of how capital gets deployed. For that profile, a structure built around silent allocation and quarterly statements can feel like a step backward even when the tax mechanics are favorable.

Summit Ventures operates as an entrepreneurial joint venture platform specifically for participants who want the statutory tax treatment available to working interest owners without giving up governance rights, operational transparency, or visibility into how capital is actually being used in the field. Evaluating whether that structure fits a specific post-exit situation requires a direct conversation with a qualified CPA and attorney, alongside a review of the operator's actual well program and joint operating agreement — not a generalized sales pitch.

Statutory Tax Treatment

Working interest owner classification under IRC 469(c)(3)(A) for active income offset eligibility

Governance Rights

Joint operating agreement participation — not a silent limited partner position

Operational Transparency

Full visibility into authorizations for expenditure, well-level reporting, and operator decisions

Tangible Production

Documented redevelopment programs on existing producing wellbores — not speculative exploration

Evaluate Your Post-Exit Structure with Summit Ventures

Sources and References

[1] Exit Planning Institute, cited via Harford Financial Group, *Wealth Management After a Business Sale*: 70 to 80 percent of business owner net worth concentrated in the operating company. [2] Modern Wealth, *The Owners I Worry About Have It All in One Company*: 80 to 90 percent concentration-risk figure for founders pre-sale. [3] Wealth Enhancement Group, *Preserve Wealth After Selling a Business*: asset sale versus stock sale ordinary income and capital gains distinction. [4] ustax.tools, 2026 long-term capital gains brackets per IRS Revenue Procedure 2025-32; Net Investment Income Tax stacking under IRC Section 1411. [5] WalletGrower, state capital gains comparison: Texas effective combined rate near 23.8 percent. [6] CT Acquisitions, 2026 wealth management guide, citing Cerulli Associates: 68 percent of sellers who deploy proceeds within 30 days of close report regret; state residency planning can shift after-tax proceeds by 8 to 15 percent of gross sale value. [7] Cornell Legal Information Institute, 26 U.S.C. Section 263(c); 26 CFR 1.612-4(a). [8] AE Tax Advisors and Anchor1031, intangible drilling cost and tangible drilling cost education, including IRC Section 461(h) and MACRS recovery. [9] Cornell Legal Information Institute, 26 U.S.C. Section 469(c)(3)(A). [10] 26 U.S.C. Section 465; 26 U.S.C. Section 57(a)(2). [11] American Petroleum Institute: 10.6 million jobs and $2.1 trillion contributed to the U.S. economy in 2023; record 13.5 million barrels per day of U.S. crude production in December 2024. [12] U.S. Energy Information Administration, 2026 outlook: record U.S. marketed natural gas production projected at 122.5 billion cubic feet per day. [13] Wiss, *Wealth Management for Business Owners After a Sale*: the 12 months following a liquidity event identified as the highest-risk period for wealth erosion.