



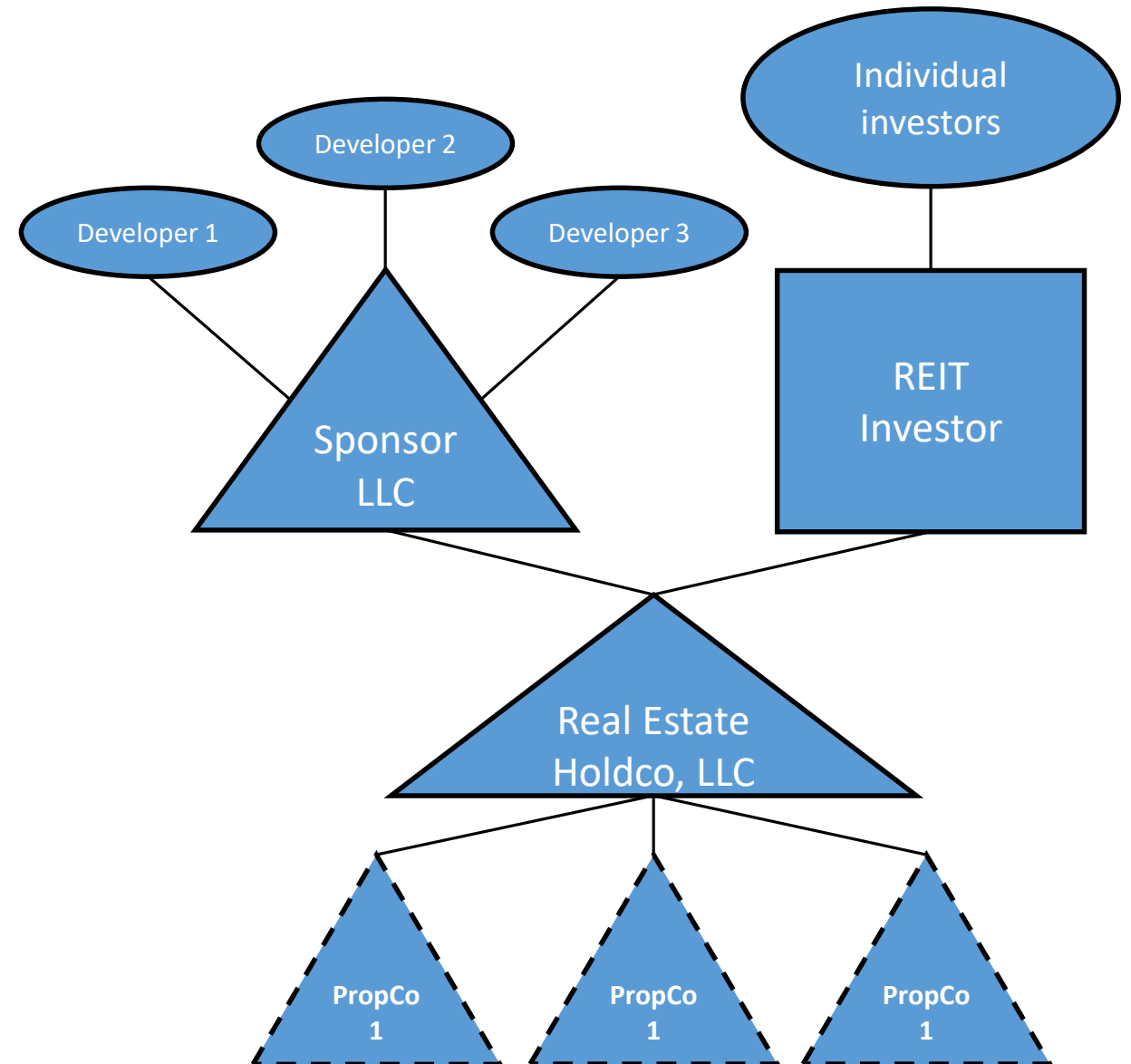
Entity-Level Tax For Partnerships

Since When? Since Now!

Scenario 1

Real Estate Developer/REIT Blocker

- **Real estate Holdco**
 - Sponsor LLC – 5% Capital Interest
- Promote
 - REIT Investor – 95% Capital Interest
- **Sponsor, LLC**
 - 3 individual Owners
 - Even Profit Split
- **REIT Investor**
 - 100+ Shareholders
 - No tax at the REIT level



Scenario 2

Real Estate Developer/Fund Investor

- **Real estate Holdco**

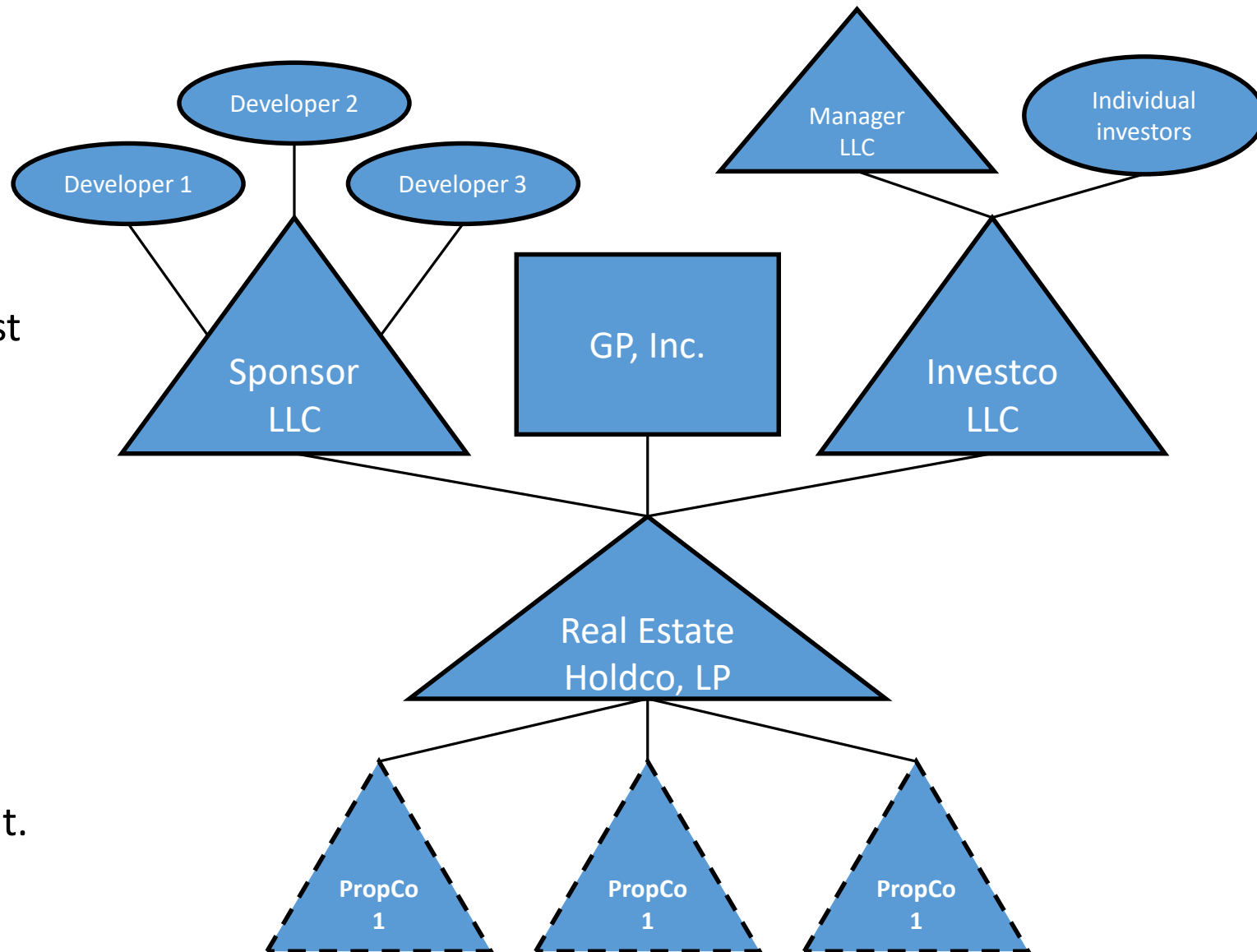
- Sponsor LLC – 5% Capital Interest
- Promote
- Investco, LLC – 94.9% Capital Interest
- GP, Inc. – 0.1% Capital Interest

- **Sponsor, LLC**

- 3 individual Owners
- Even Profit Split

- **Investco LLC**

- Manager, LLC – 1% Capital Interest
- Individual Investors – 99% Capital Int.

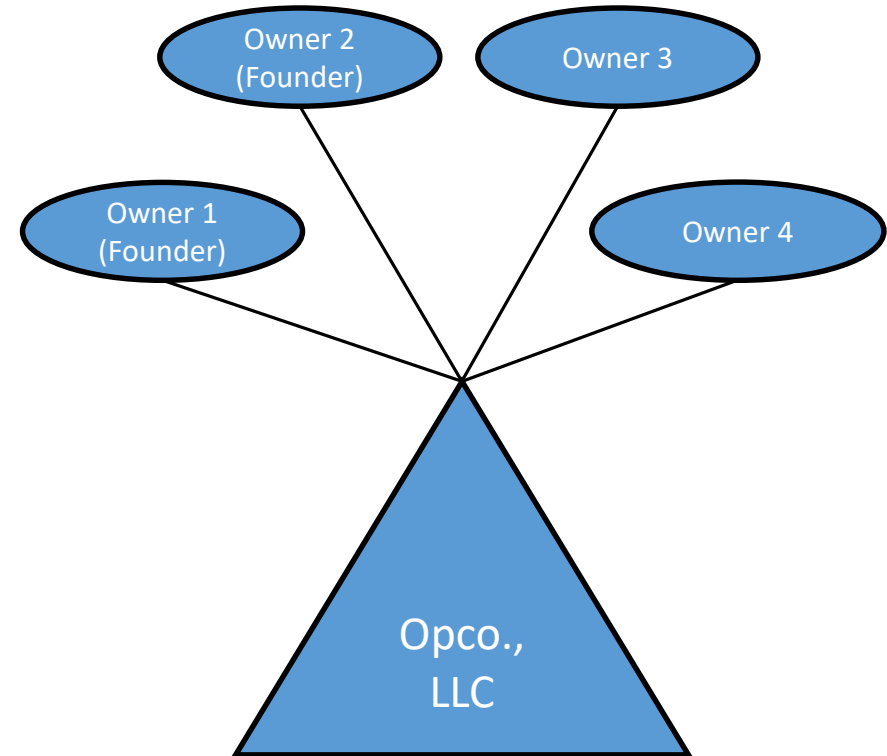


Scenario 3

Closely Held Operating Company

- **Opco, LLC**

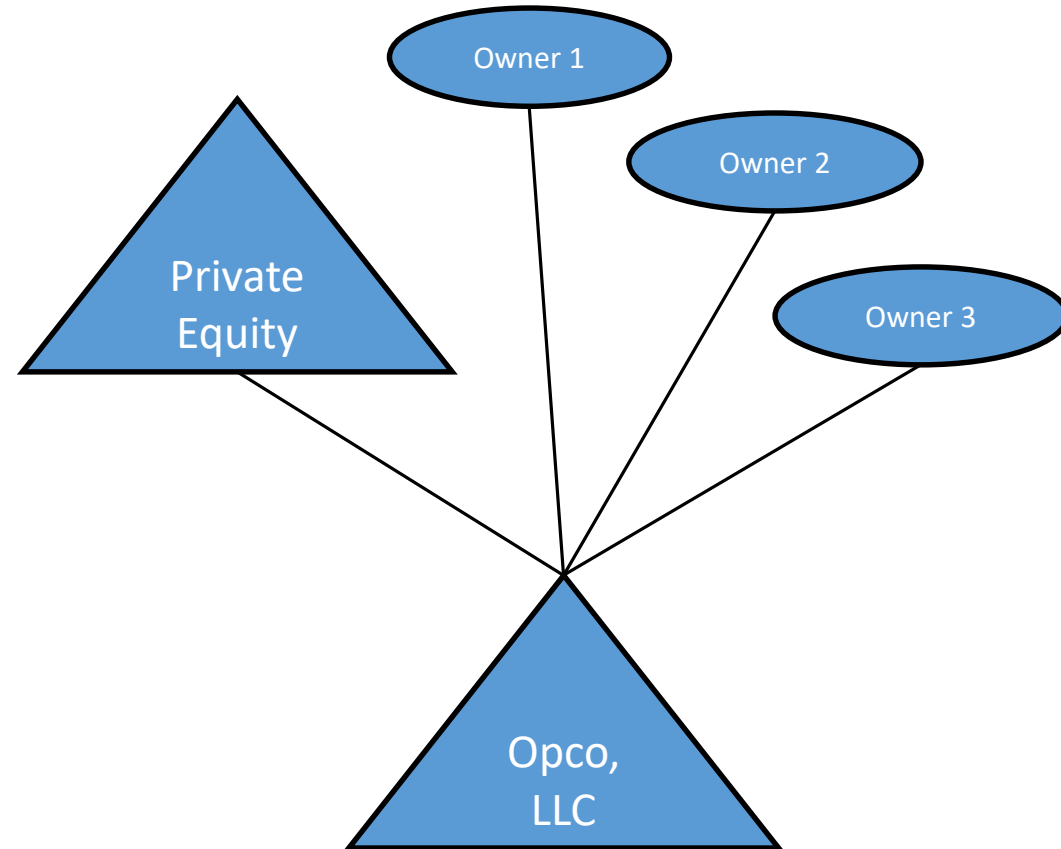
- 4 Equal Partners (25% Capital Interests)
- Business started in 1990 by Owners 1 and 2
- Owner 3 admitted in 2014
- Owner 4 admitted in 2017
- Owners 1 and 2 are retiring in 2020
- Planned admissions of new owners to fund retirement



Scenario 4

Operating Company with Private Equity

- **ManuCo, LLC**
 - Private Equity purchased a 60% stake in Opco, LLC 1 year ago.
 - Seller controls pre-close audits
 - Seller will not opt in early to new partnership audit rules.

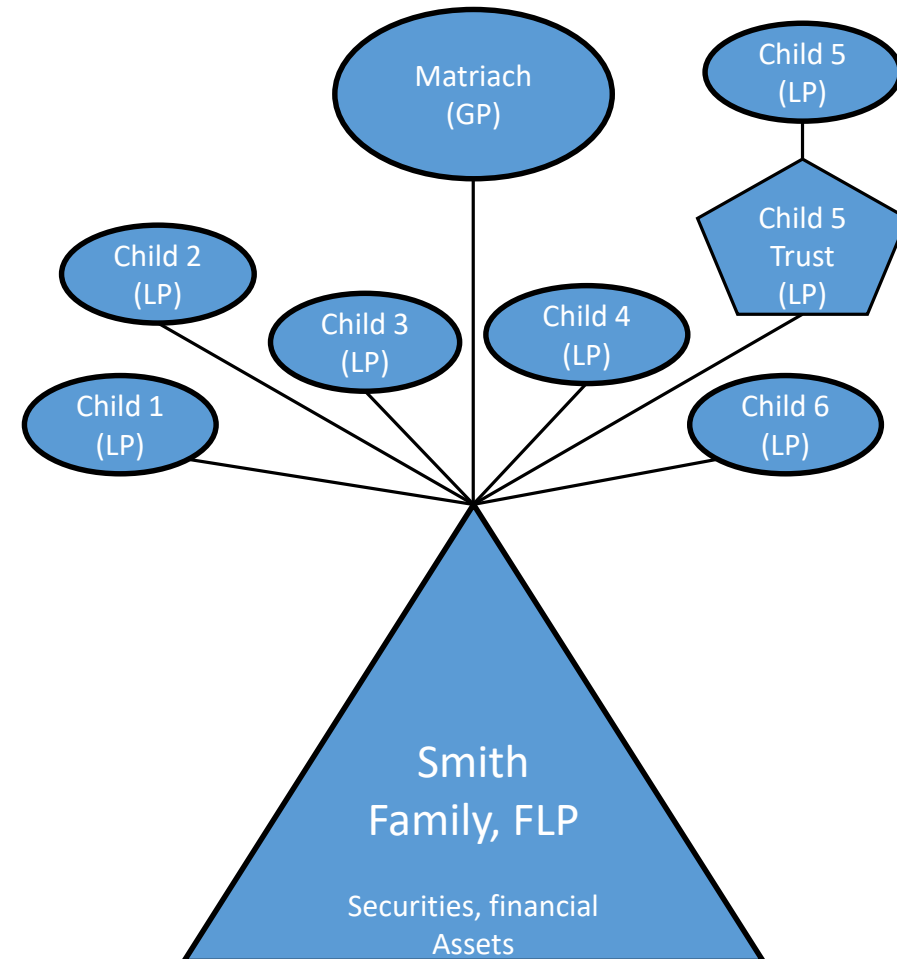


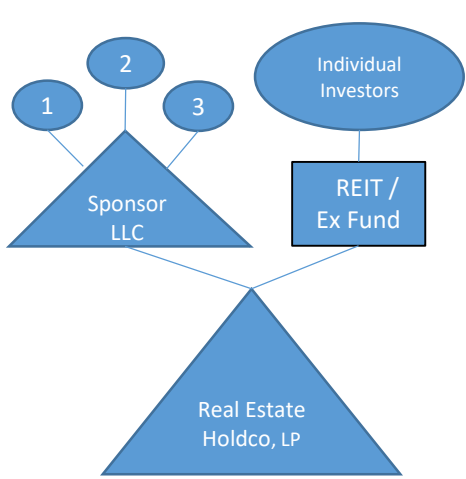
Scenario 5

Family Limited Partnership

- **Smith Family Limited Partnership**

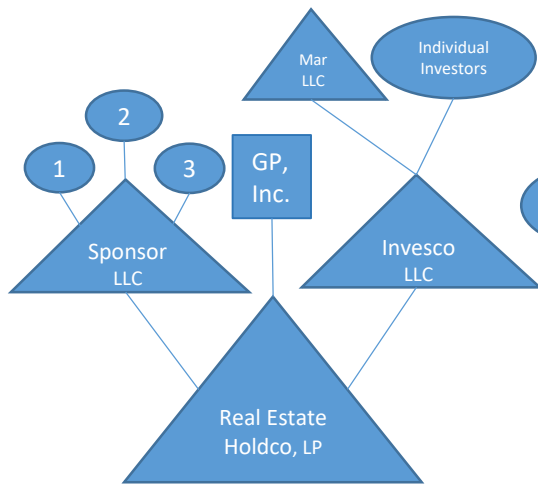
- 6 LP Owners (Children)
- Child 5 holds his interest through a trust for the benefit of his family members.
- Matriarch holds GP Interest





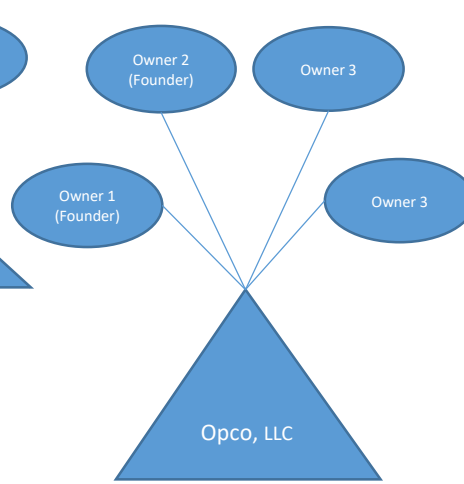
Exempt Dev Co

Real Estate Development Project Company with a REIT or exempt fund as investor - Developer got tied in with REIT or Exempt fund years ago and has been using their documents so as to not rock the boat. He doesn't really even know what is in them. It's their 4th deal.



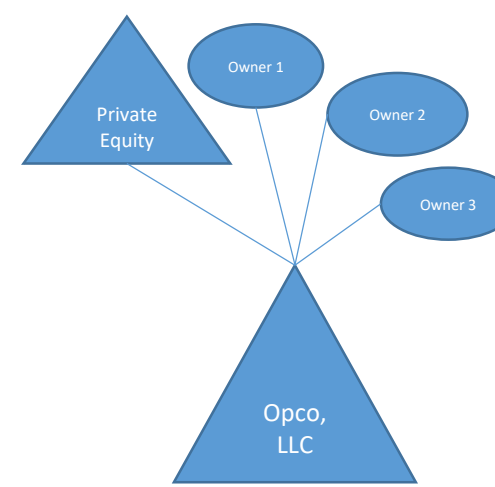
Fund Dev Co

Real Estate Development Project Company - developer member and fund member, both taxable; this is the 7th deal that they have done; they use the same forms every time for efficiency. Deals 1-5 are closed and liquidated (#5 closed and liquidated in 2016), #6 expected to close and liquidate in 2018, #7 just started and is in mid construction



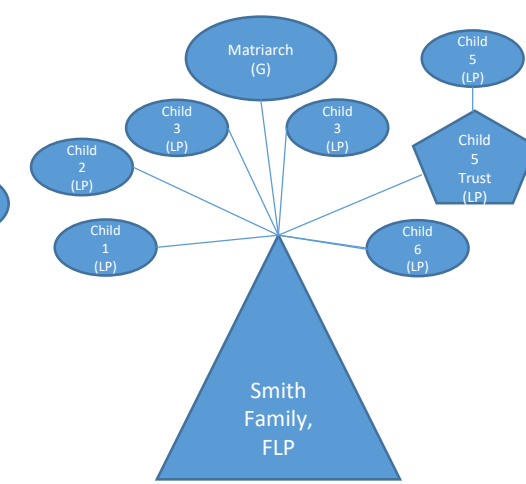
Service Op Co

Services partnership - 4 members (1, 2, 3, 4), all active service providers; 1 & 2 founded the company 15 years ago, 3 admitted in 2014, 4 joined in 2017, Owners 1 and 2 are retiring in 2020, planned admissions of new owners to fund retirement.



Fund Op Co

Operating Company with two founders (15 years ago) and a fund investor (1.5 years ago) who provided growth capital and "chips off the table" money



Family LP

Family Limited Partnership - estate planning vehicle for the parents' generation, six kids, two of them don't speak, essentially passive owner of various investments.

TAKE AWAYS:

- BBA of 2015 changed how the IRS will audit partnerships and entities taxed as partnerships. New rules allow IRS to assess the tax, penalties, and interest at the partnership level.
- New Rules are effective for partnerships tax years beginning on or after January 1, 2018.
- There is no right under the new rules for partners to participate in the audit on their own behalf – Only the Partnership Representative participates in the communication with the IRS.
- Partnership Representative must be a person with substantial presence in the United States
- A partnership may elect out of the new audit regime if it has less than 100 partners and no pass-through entities other than S-Corps as partners.
- At the completion of the audit, a partnership can seek to reduce the amount of the underpayment liability by proving the partners would have paid less tax if their individual tax attributes were taken into account. However, which attributes will be allowed is not clear in the statutes.
- A partnership may elect to “push-out” the audit adjustment to the review year partners. However, the new rules shift the burden of determining how the audit adjustment is allocated to the upper-tier partners from the IRS to the audited partnership.
- The new rules raise many questions that partners need to potentially address in past, current, and future operating agreements.
- How states will adjust to or adopt the new IRS rules is yet to be addressed, but causes further complications upon an IRS adjustment.
- Partnerships will now need to evaluate the effect of the new rules on prepared GAAP financial statements.