

KEY SERVICE INSIGHTS

PRIVATE EQUITY NEWSLETTER

STRUCTURING FOR TAX-EXEMPT INVESTORS

Tax implications often determine how certain types of investors will invest in a fund. There are various categories of investors that have competing tax implications so it is important that the fund can accommodate the competing tax interests of the investors. One category of investors are tax-exempt investors and planning for unrelated business income tax (“UBIT”).

A common planning strategy for tax-exempt investors to avoid UBIT is having a blocking corporation between the fund and the tax-exempt investors. The blocker corporation is not tax-exempt and the income that flows through to the blocker corporation will be subject to corporate income tax reducing the return to the tax-exempt investors by the amount of the corporate income tax.

If the blocker corporation blocks more than UBIT, then it will be important to determine whether the investment of the tax-exempt investors can be structured so that non-UBIT income will not pass through the corporate blocker corporation. The goal is not to needlessly tax income that would not otherwise be subject to tax to the tax-exempt investor.

With proper planning the fund can typically structure the investment options for the tax-exempt investors so that only UBIT income passes through the corporate blocker and the non-UBIT income is returned to the tax-exempt investor with no imposition of tax. Proper structuring in these circumstances can



significantly increase the return to tax-exempt investors so there is no unnecessary imposition of tax thereby increasing the return received to the tax-exempt investors.

By closely coordinating legal, accounting, and fund administration, our clients receive customized fund structures tailored to the needs of the fund and their investors. Fund managers need to be responsive to their investors. Delays and lack of coordination of the professionals engaged by the fund should never be an issue especially when it results in inefficient tax implications to the investors.

We understand the importance of being responsive to fund managers, ensuring the work is completed accurately and on a timely basis, and coordinating with the necessary professionals for efficient results. We provide this solution while having the feel of dealing with a single platform.

Praestans Global Advisors is neither a law firm nor a CPA firm.



Strategic Business Planning that is collaborative, integrated, and bespoke.