Alternative investments

New centralized IRS partnership audit regime begins January 1, 2018

New proposed regulations issued June 14, 2017 apply to all partnerships required to file a U.S. tax return. IRS focus on pass-thru entities continues to increase.

Impact of the new regime

Effective tax years beginning January 1, 2018, a centralized IRS partnership audit regime will significantly transform partnership audits and the assessment and collection of tax from partnerships. The new regime:

— Applies to all partnerships regardless of the number of partners

— Imposes an entity level tax at a potential 39.6% tax rate

— Replaces the Tax Matters Partner (TMP) with a Partnership Representative who has exclusive broad-ranging authority over the partnership and its partners.

Significance to our clients today

By subjecting partnerships to a potential 39.6% tax rate, entities may be in a worse position under the new regime than if taxes were paid at the investor level. The new regime potentially impacts:

— The ability to attract investors

— An entity's cash management position

— Capital accounts, special allocations, and basis and valuation determinations

Elimination of the TMP for a Partnership Representative with sole authority to bind the partnership and its partners makes updates to partnership agreements a critical component of client readiness for the new centralized regime.

How KPMG can help

Identification & pre-regime planning

— Evaluate tax positions in open tax years. Consider potential impact to capital accounts, special allocations, inside and outside basis and valuation determinations

— Assist with updating partnership agreements to designate a Partnership Representative and define regime protocol

— Establish a document management system to assist with Imputed Underpayment Amount (IUA) modification requests

— Consider potential financial reporting & state tax return implications

Beginning January 1, 2018

— Is the partnership eligible to elect out of the new regime?

  – Timely election, disclosure of partner information to IRS, and partner notification

— IRS exam representation & planning consultation

— Modeling—Partnership "Pay" vs "Push" scenarios (including calculation of additional 2% interest toll)

  – If Partnership Pays–prepare timely IUA modification requests

  – If Partnership Pushes—prepare timely election and related statements for both reviewed year partners and IRS

— Amendments to partnership returns (AARs) including IUA modification requests and preparation of timely push out elections and related statements

Why KPMG?

- KPMG's Alternative Investment Practice has invested over $300 million in the past five years in technology, people and service innovation focused on the alternative investment industry
- KPMG's Tax Controversy Services practice is comprised of a team of experienced tax controversy specialists, including former IRS Chief Counsel litigators, U.S. Tax Court clerks and law firm professionals, with expertise in proactively addressing issues that may impact the alternative investment industry
- Our Washington National Tax team consists of attorneys with both private sector and government experience.

KPMG is a market leader, providing audit, advisory, and/or tax services to:

Hedge funds

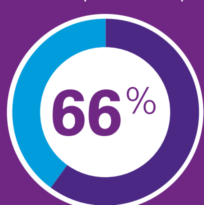
KPMG:

Audits **26%** and provides nonaudit services to **32%** of the top 50 hedge funds[1]

Serves **56%** of the top hedge fund of funds asset managers[2]

Private equity

KPMG provides professional services to

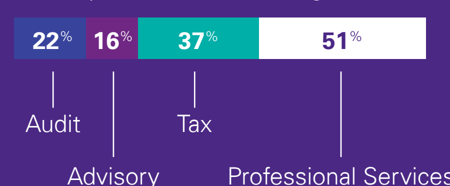


of the top 30 U.S.-based PE firms[3]

Real estate fund managers

Of the top 100 U.S. real estate fund managers[4]

KPMG provides the following services:



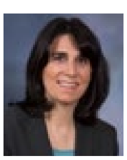
1 "Barron's Best" Hedge Funds, May 2015

2 Global Alternatives Survey, Towers Watson, July 2015

3 Private Equity International, PEI 300, May 2015

4 Preqin database, 2015

Contact us



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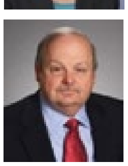

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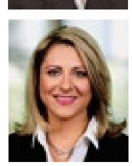

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