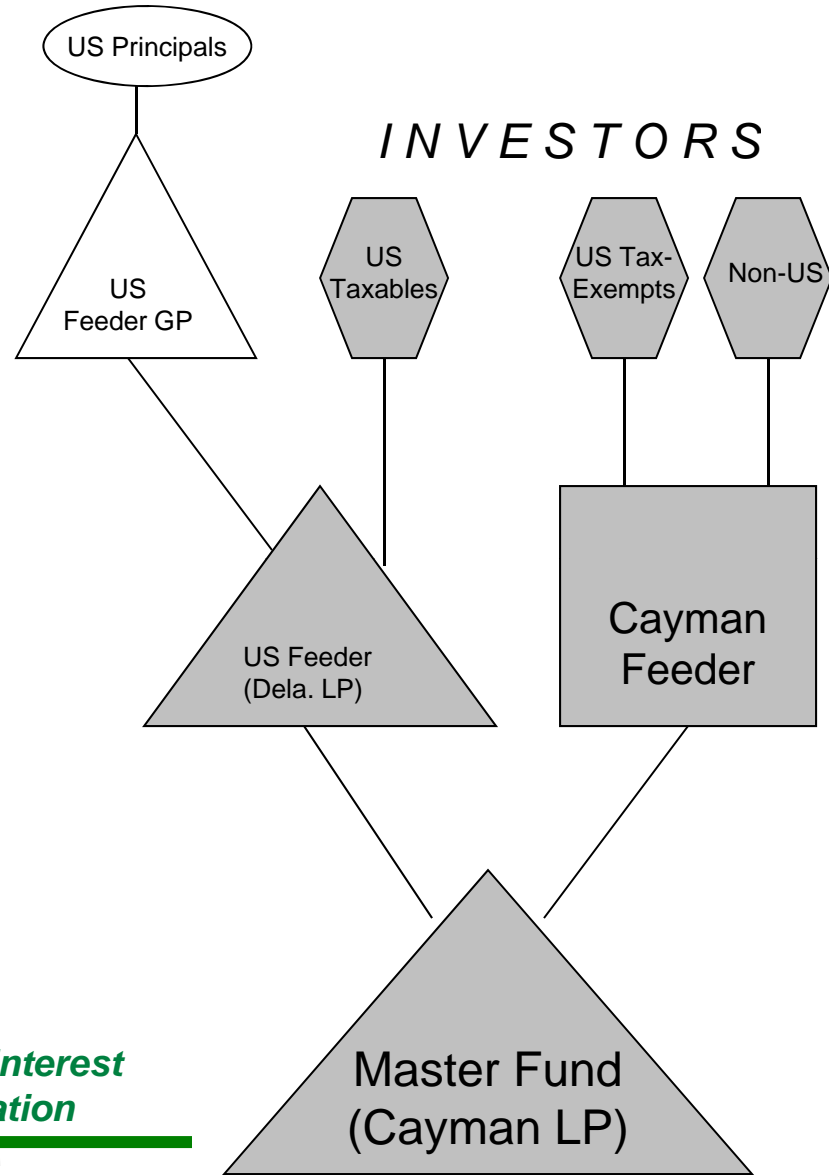
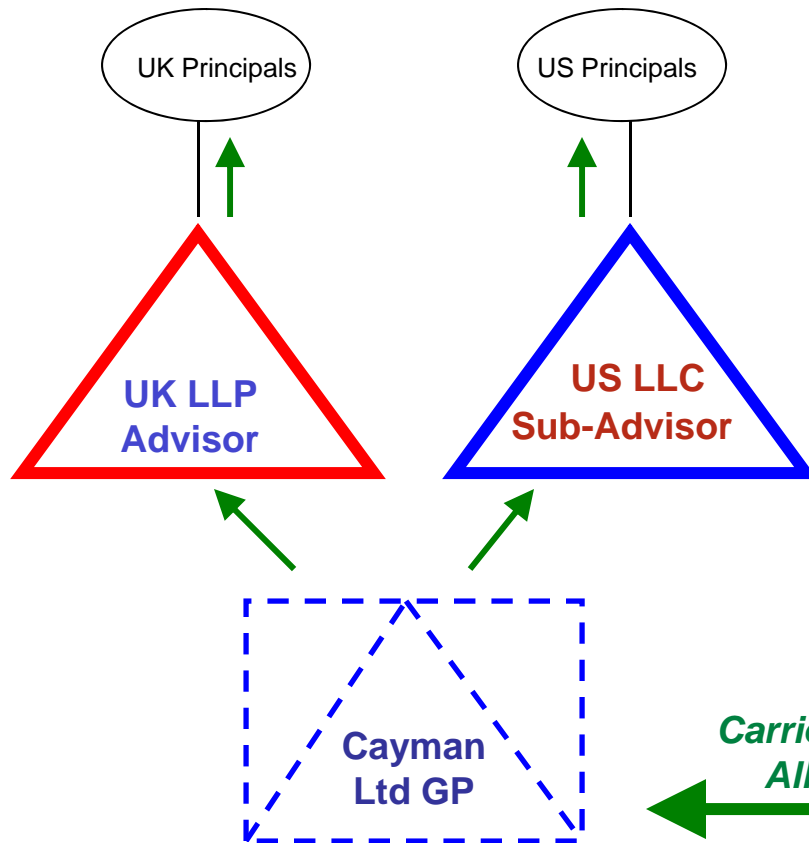


UK-US Management Structure

I. Carried Interest Allocation



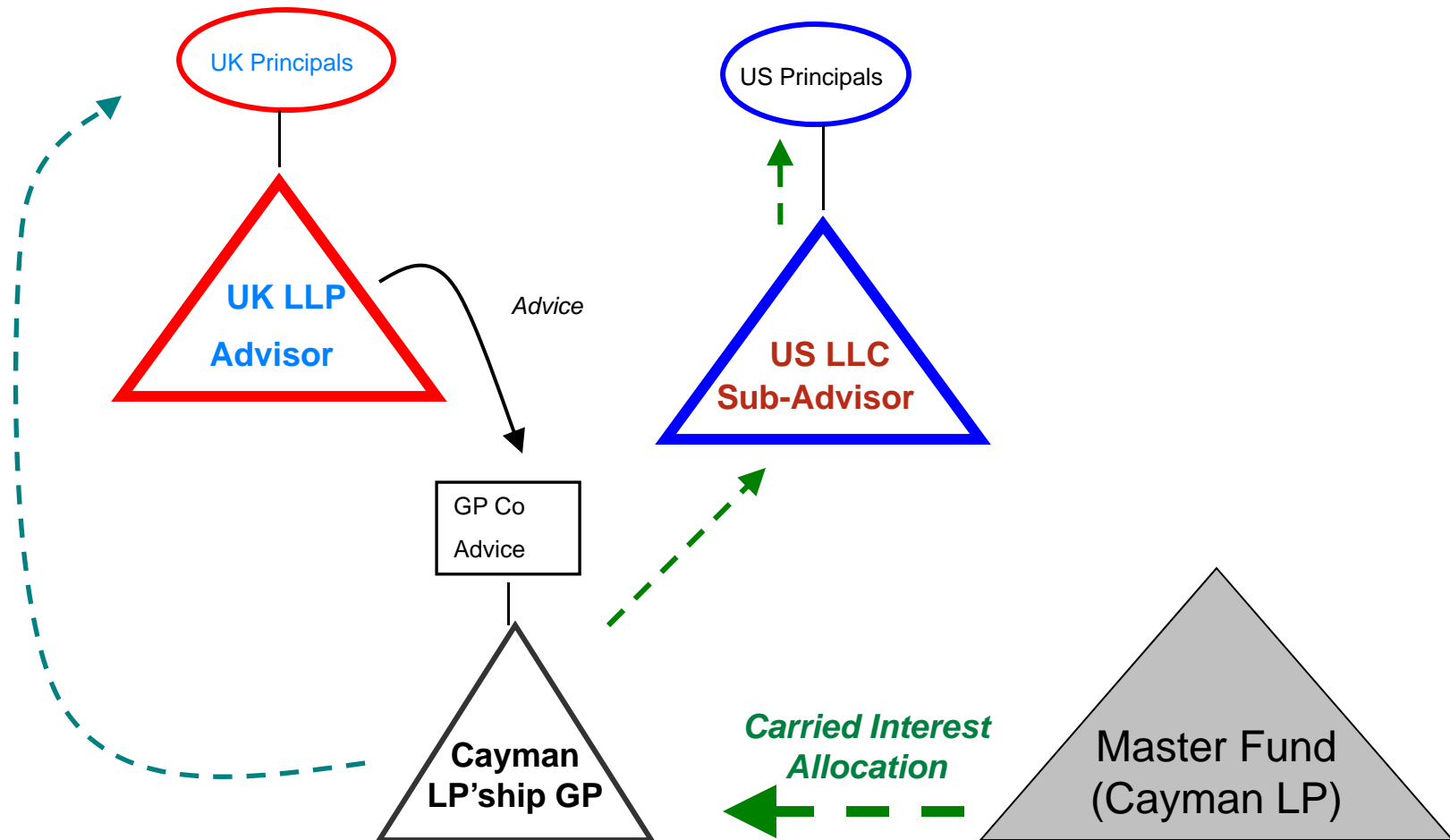
Carried Interest Allocation



UK-US Management Structure

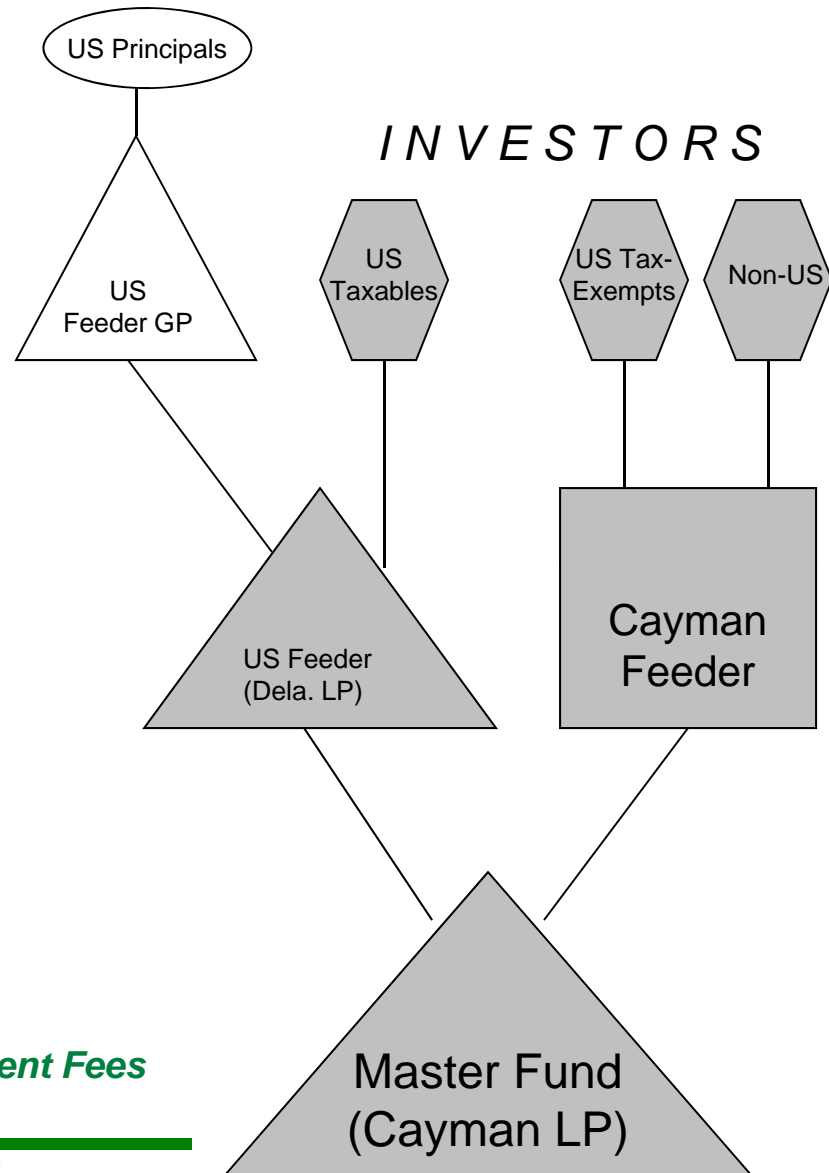
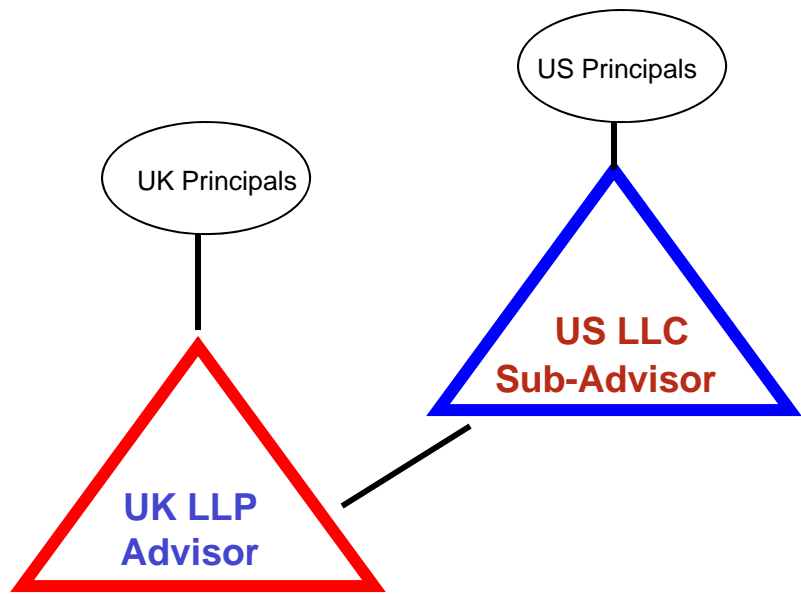
II. Preferred UK Carried Interest Structure

- Carry should go directly to Principals (not via trading entity)
- Carry should pass through transparent entities
 - base cost shift
 - risk of “debasing” capital into income



UK-US Management Structure

III. UK Management Fees



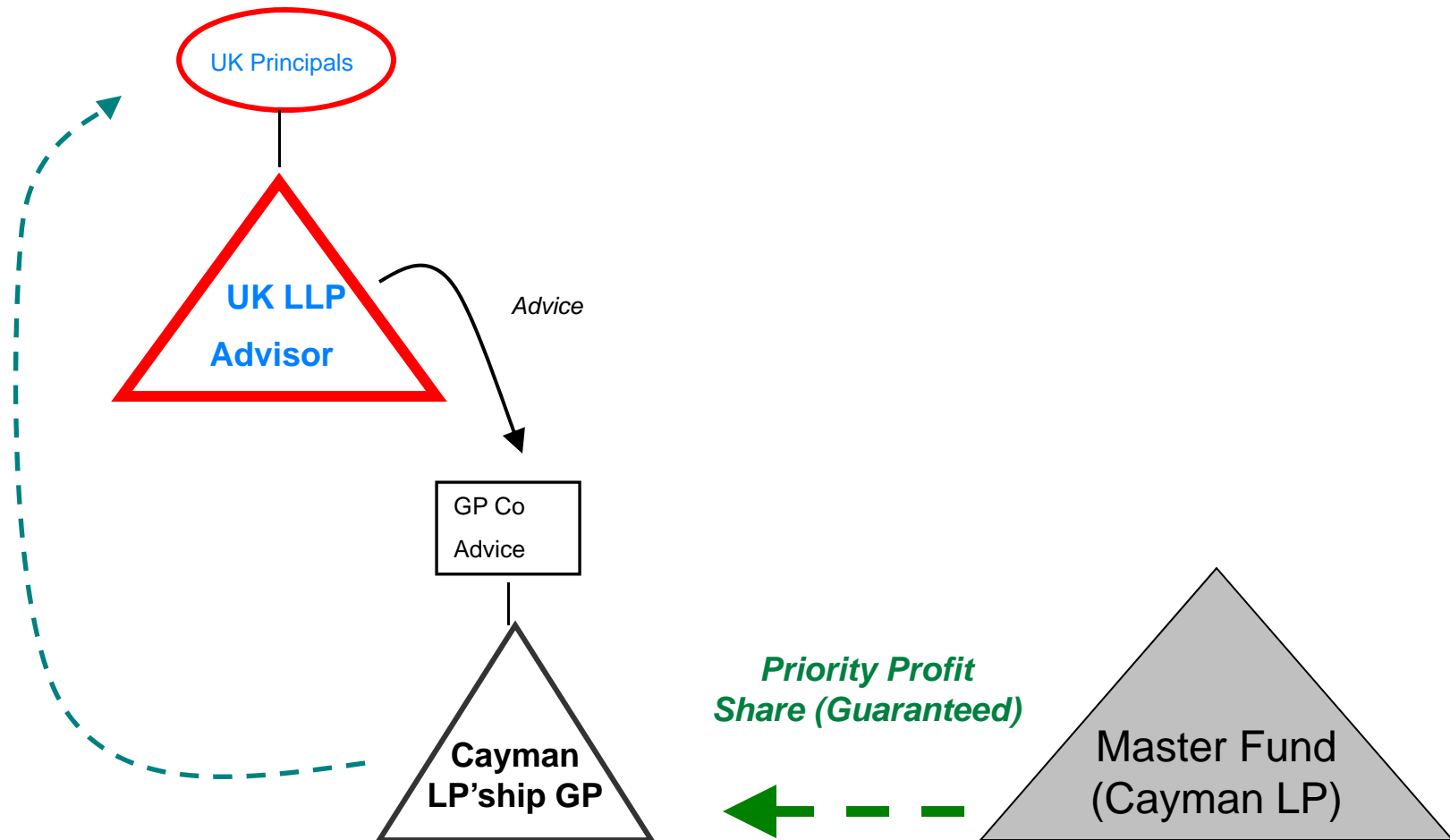
Management Fees



UK-US Management Structure

IV. Preferred UK Management Fee Structure

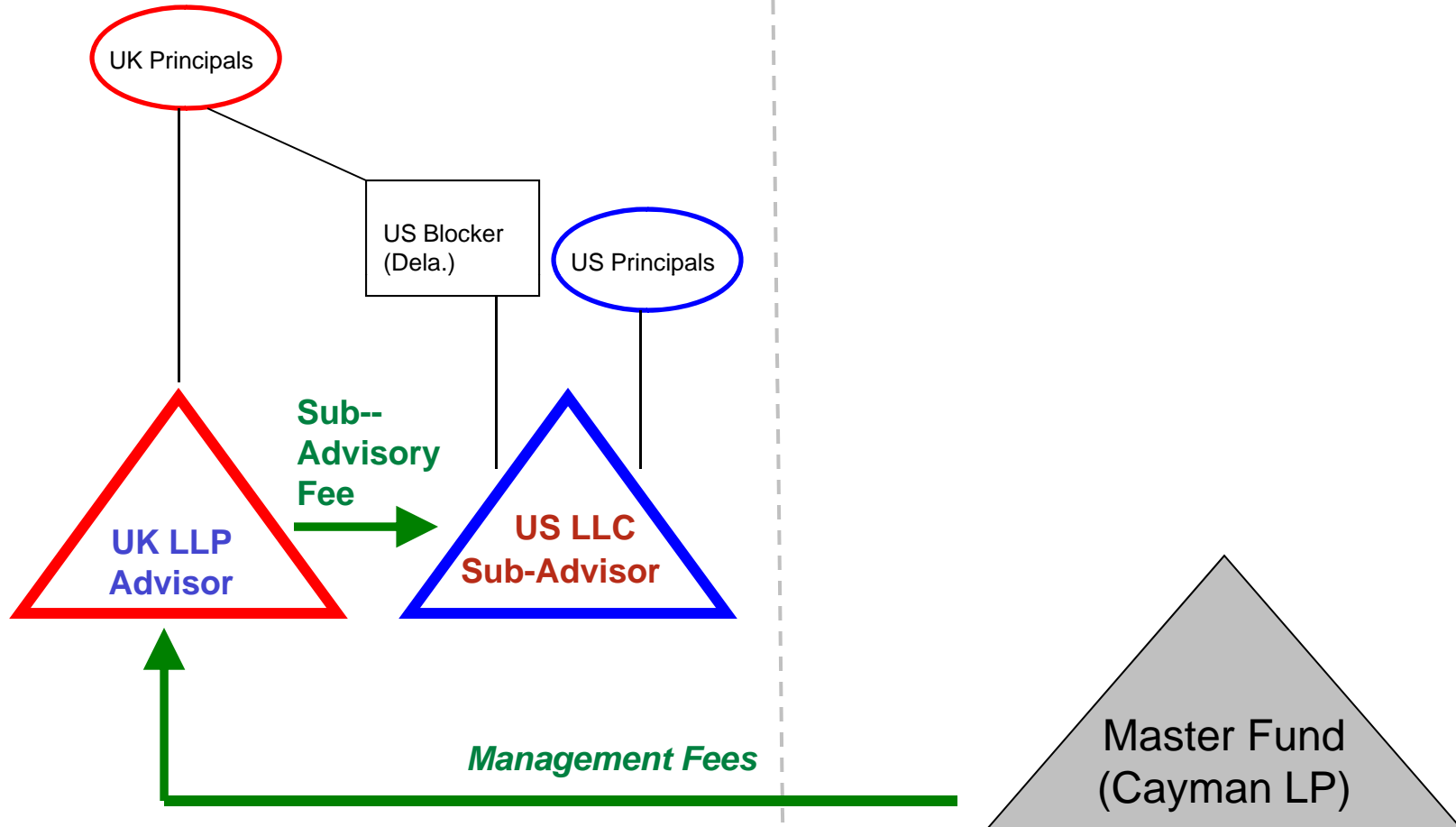
- Idea is to use carry planning ideas to tax surplus PPS as capital gain/investment income



UK-US Management Structure

V. US Management Fees

- Blocker is crucial
- UK will not give individuals credit for US tax, as LLC not seen as transparent in UK; *HMRC v Anson* [2011] UKUT 318 (TCC)



Key Issues for UK Managers (1)

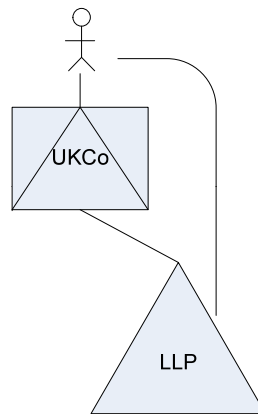
- Private equity/real estate funds tax efficient for managers
 - carried interest taxed very benignly
 - CGT (top rate 28%)
 - “base cost shift”
 - LLP structures to avoid NICs (13.8%)
 - GPLP (carry type) structures can be used to mitigate full income tax on operating (fee) profits
- Hedge funds which trade (trade vs investment a key UK tax distinction) need to avoid having a UK P/E. If hedge fund trades and has UK P/E, it needs to rely on IME to avoid being taxed in UK. IME requires full return to manager (2+20) to be taxed as income in UK

Key Issues for UK Managers (2)

- **Hedge fund may be able to avoid P/E by**
 - UK adviser/offshore manager
 - treaty agent of independent status
- **Hedge fund manager planning options:**
 - (a) if fund is investing not trading - follow private equity approach/
performance fee as carried asset
 - (b) if fund is trading but no UK P/E- as (a) and convert trading
(income) profits into capital
through an opaque vehicle
 - (c) if fund is trading and UK P/E - all inflows to manager should be
income (to get fund into IME)
- **If hedge fund manager is in (c), he will need to adopt (potentially aggressive) structures to reduce income tax rate (e.g. “defeasance”) by playing off corporation tax/income tax arbitrage (24% vs 50%)**

Key Issues for UK Managers (3)

- An alternative is “defer and go planning”. Eg:



US citizen takes some LLP profit share via UKCo (transparent in US) subject to UK CT fully credited in US and extracts money after return to US

- Finally there's “give up and go” planning - catch the plane to Zurich/Geneva!
But it's getting harder to do (2011 Consultation on Residence)