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Section I

OVERVIEW

Overview
The Tax Cuts and Jobs Act

- The Tax Cuts and Jobs Act was signed into law by President Trump on December 22, 2017.
- The most comprehensive reform since 1986.
  - Most of the amendments start on the tax year starting January 1, 2018.
  - Impacts individuals as well as corporations.
  - Substantial changes to multinational companies, changing the structure of the International Tax planning and worldwide business transactions.
    - These amendments impact Puerto Rico and companies with tax incentives granted by the Government of Puerto Rico.

Section II

INTERNATIONAL PROVISIONS

International Provisions
Corporate Tax Rates and Other Provisions

- Corporate tax rates reduced to a flat 21% effective January 1, 2018.
- A Controlled Foreign Corporation (CFC) means a foreign corporation if **more than 50%** of the total combined voting power or the total value of the stock of such corporation is owned or considered as owned by United States shareholders.
- A United States shareholder is a **US person** who owns or is considered as owning **10% or more** (by vote or value) of a any foreign corporation.
- IRC §957(C): a shareholder who is a bona fide resident of Puerto Rico is not a US person in relation to an entity taxed as a corporation organized under the laws of the Commonwealth of Puerto Rico if a dividend received by such shareholder is treated as income derived from sources within Puerto Rico under IRC §933

International Provisions
Global Intangible Low Tax Income (GILTI)

- This provision applies to Controlled Foreign Corporations.
- GILTI is computed as the excess of:
  - the shareholder's prorata share of the CFC's net income (after foreign taxes), over
  - the shareholder's prorata share of the CFC's deemed tangible income return (which is basically a return equal to 10% over the corporation's tax basis in tangible property).
- In the case of a service business, tangible property can be very limited or none.

International Provisions

Global Intangible Low Tax Income (GILTI)

- With certain deductions, the effective tax rate for corporate shareholders is 10.5% up to December 31, 2025 and 13.125% for taxable years commenced after December 31, 2025.
- Starting on January 1, 2018, United States shareholder individuals of a CFC will be subject to ordinary income tax rates on the GILTI.
- Foreign tax credits available upon foreign income tax paid with respect to GILTI, but limited to an 80%, without carry back or carry forward.

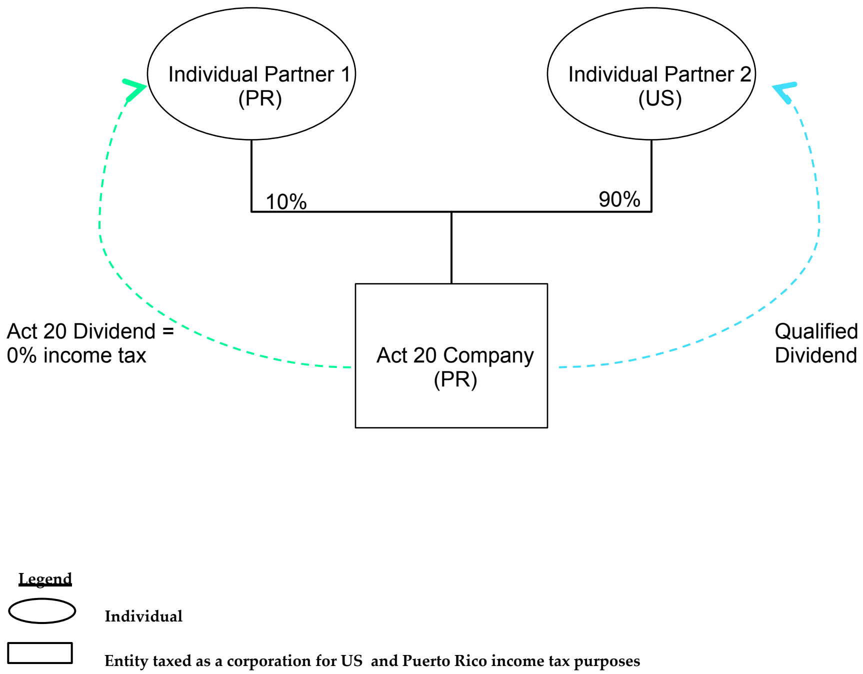
International Provisions

Global Intangible Low Tax Income (GILTI)

- The income subject to GILTI consists primarily of gross income (or loss) excluding:
  - Effectively connected income from a corporate operation
  - Subpart F income
  - Foreign oil and gas income
  - Related party dividends
- Net Deemed tangible income is Not Affected by GILTI:
  - 10% of the shareholder's qualified business asset investment (QBAI) on each CFC less applicable interest expense*
  - A QBAI used for the computation is the basis on specified tangible property used in the business which is entitled to a depreciation deduction

International Provisions

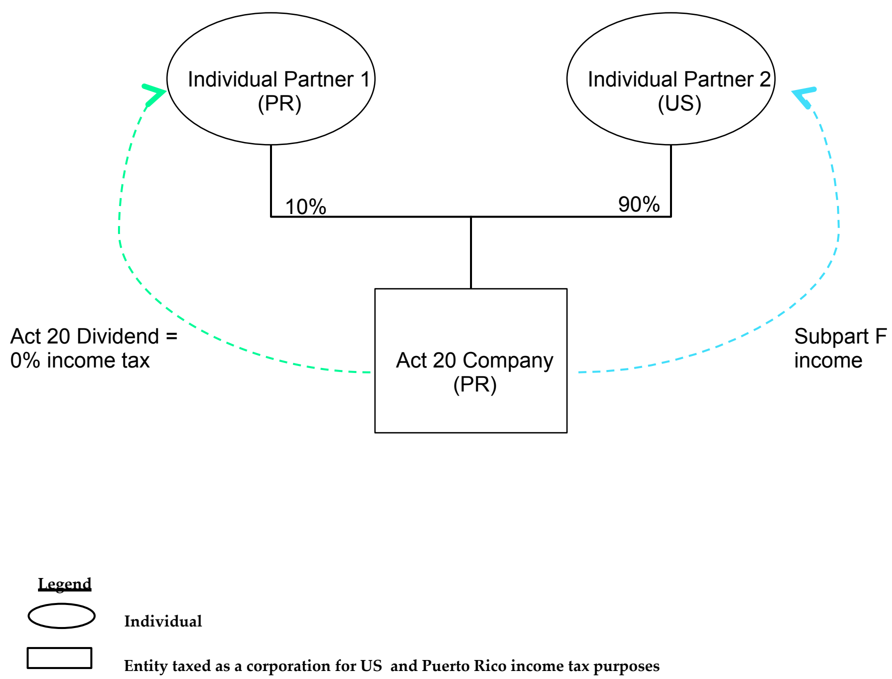
Example- Before Tax Reform



- An active Act 20 Company had 2 partners, a PR partner (10%) and a US partner (90%)
- The Company paid its 4% income tax rate on the active service income
- Upon distributions from the Act 20 Company:
  - PR partner received its distributions from the Act 20 Company at a 0% income tax rate
  - US partner had a qualified dividend on the portion distributed (20% plus, 3.8% Obama Care).

International Provisions

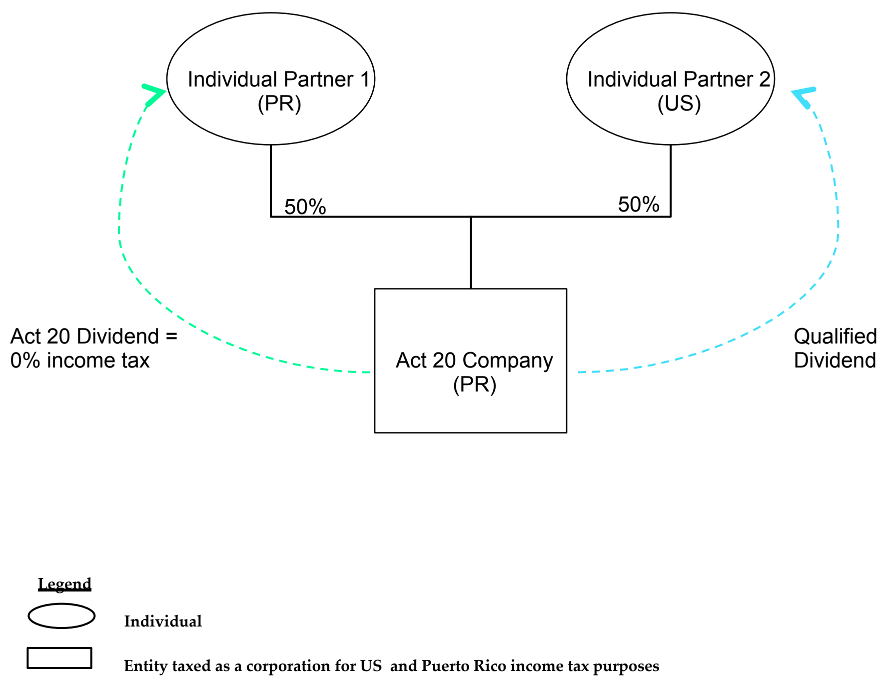
Example: After Tax Reform + GILTI Effect



- An active Act 20 Company has 2 partners, a PR partner (10%) and a US partner (90%)
- The Company pays its 4% income tax rate on the active service income
- Upon distributions from the Act 20 Company:
  - PR partner receives its distributions from the Act 20 Company at a 0% income tax rate
  - US partner would have a Subpart F income , taxable at 37% ordinary income tax rate

International Provisions

Example: After Tax Reform + GILTI Effect + 957(c)



- An active Act 20 Company has 2 partners, a PR partner (50%) and a US partner (50%)
- The Company pays its 4% income tax rate on the active service income
- Upon distributions from the Act 20 Company:
    - PR partner receives its distributions from the Act 20 Company at a 0% income tax rate
    - US partner has a qualified dividend on the distribution

Section III:

IMPACT ON INDIVIDUAL TAXPAYERS

Impact to Individual Taxpayers
Income Tax Rates

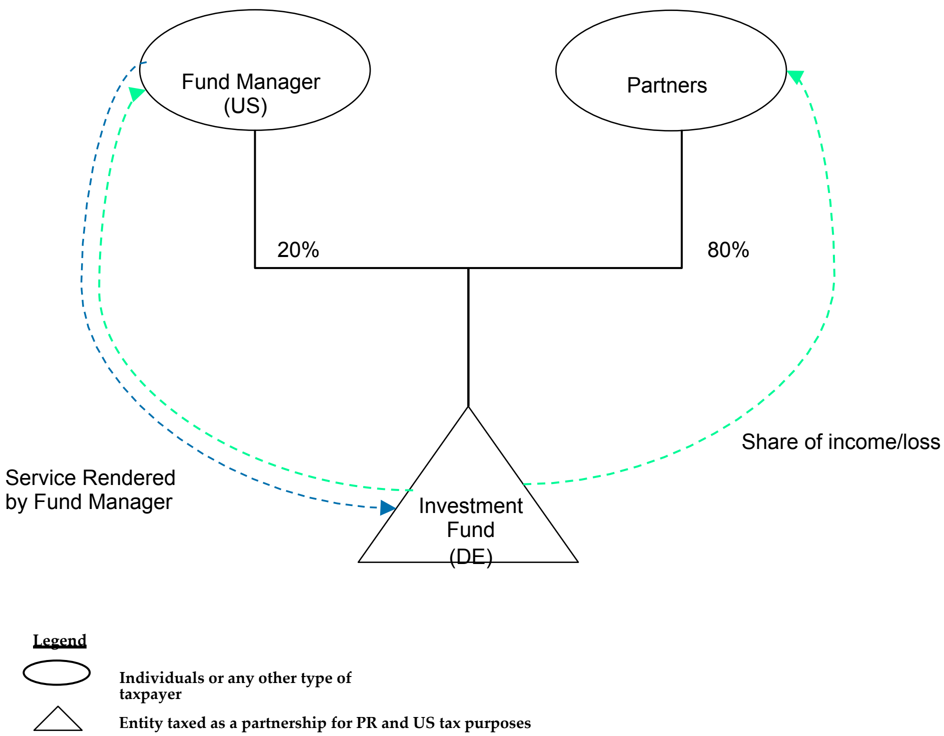
- Personal Income Tax rates reduction:
  - The highest income tax rate applicable to individuals was reduced from 39.6% to 37%.
  - Previously, the income tax rates had 6 tax rates: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%;
  - Now individuals have one more tax rate before reaching the highest tax rate: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

Impact to Individual Taxpayers
Carried Interest for Services

- A profits interest in a partnership is any interest other than a capital interest.
- A profits interest gives the holder the **right to receive future profits and appreciation in value of assets of a partnership**, but doesn't give the holder a share of the proceeds upon the immediate liquidation of the partnership.
- The receipt of a capital interest for services provided by a partnership results in taxable compensation for the recipient. However, under a safe harbor rule, the receipt of a profits interest in exchange for services provided is **not a taxable event** to the recipient if the profits interest entitles the holder to share only in gains and profits generated after the date of issuance.

Impact to Individual Taxpayers

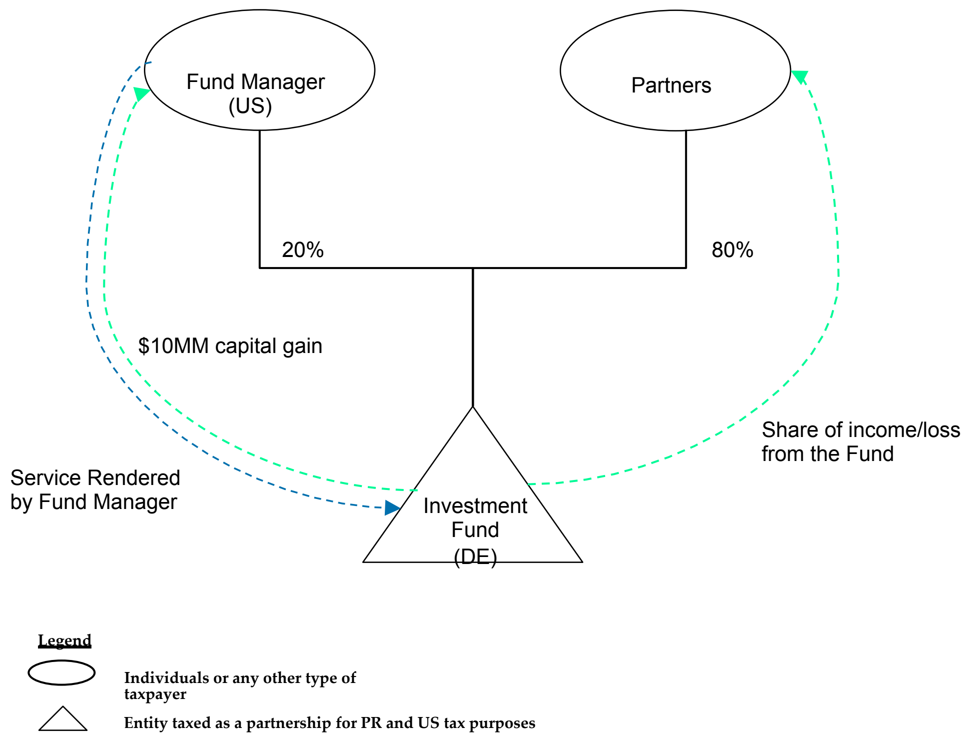
Example: Hedge Funds- Before Tax Reform



- Fund Managers are compensated for the services rendered to the fund by means of a profit interest.
- The receipt of the profit interest by the Fund Manager is not a taxable event to the Fund Manager.
- The Fund and the Manager treat the Manager as having a partnership interest.
- Accordingly, Fund Manager accounts for his or her distributive share of the Fund's income or loss for income tax purposes.
- Long-term capital gain treatment to Fund Manger through its profits interest when the Funds sells capital assets held for more than one year.

Impact to Individual Taxpayers

Example: Hedge Funds- Before Tax Reform, cont.



- A Fund raised capital of $100MM and sold its investments held over a year for $150MM, resulting in a $50MM gain.
- The Manager had 20% carried interest, therefore his or her distributive share of the gain is $10MM.
- The gain is taxed at a 20% long term capital gain rate, plus 3.8% net investment income tax.
- The Manager generated a net after tax return of $7.62MM.

Impact to Individual Taxpayers

Carried Interest for Services, cont.

- In general, the Act imposes a 3-year holding period requirement on the sale of partnership assets which affects taxpayers holding **applicable partnership interests** received as managers and/or sponsors with respect to income allocations intended to be treated as long-term capital gains in relation to the sale of **specified assets**.
- In the case the time threshold has not been met, the income would be considered short term capital gain and taxed at ordinary income tax rates.

Impact to Individual Taxpayers

Carried Interest for Services, cont.

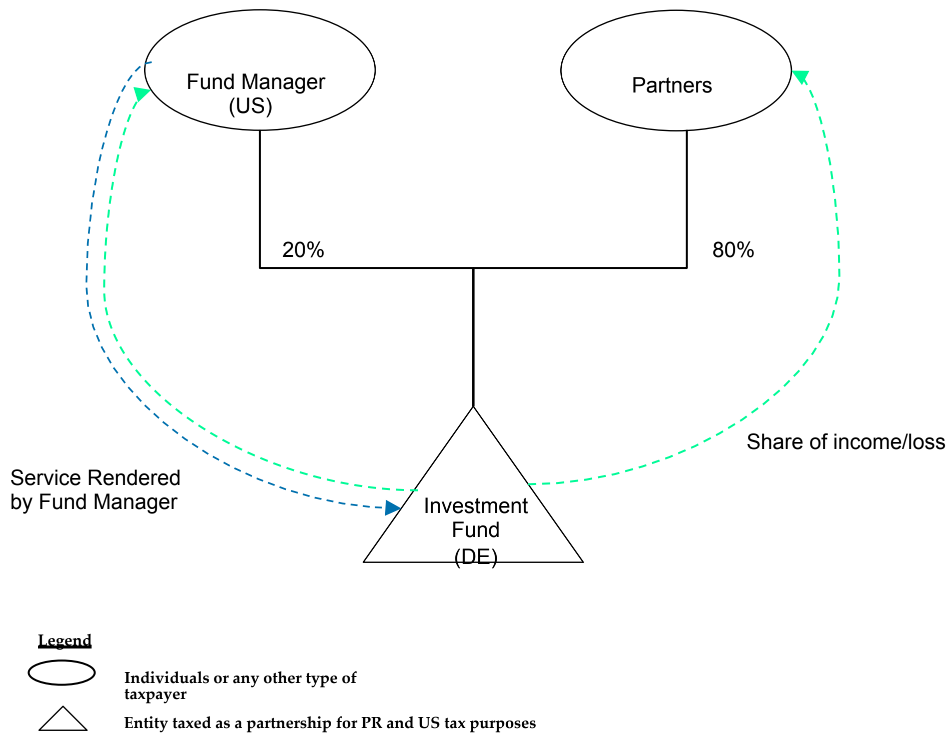
- Applicable partnership interests: interest in a partnership held by or transferred to the taxpayer related to the performance of [his or her] substantial services in any applicable trade or business.
- An applicable trade or business is a regular activity consisting of:
  - Raising or returning capital; and
  - Either investing in or disposing of specified assets or developing ***specified assets***

Impact to Individual Taxpayers
Carried Interest for Services, cont.

- Specified assets would be:
  - Securities;
  - Commodities;
  - Real estate held for rental or investment;
  - Cash or cash equivalents;
  - Options or derivative contracts with respect to any of the foregoing; and
  - An interest in a partnership to the extent of the partnership's proportionate interest in any of the foregoing.

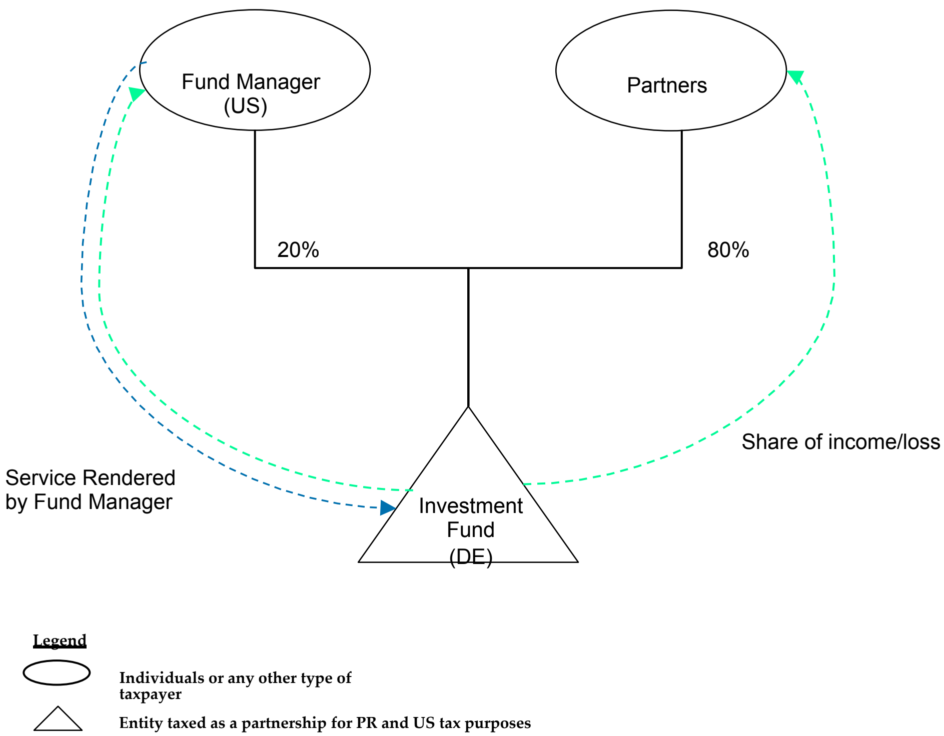
Impact to Individual Taxpayers

Example: Hedge Funds-After Tax Reform



- Fund Managers are compensated for the services rendered to the fund by means of a profit interest.
- The receipt of the profit interest by the Fund Manager is not a taxable event to the Fund Manager.
- The Fund and the Manager treat the Manager as having a partnership interest.
- Accordingly, Fund Manager accounts for his or her distributive share of the Fund's income or loss for income tax purposes.

Impact to Individual Taxpayers
Example: Hedge Funds-After Tax Reform, cont.

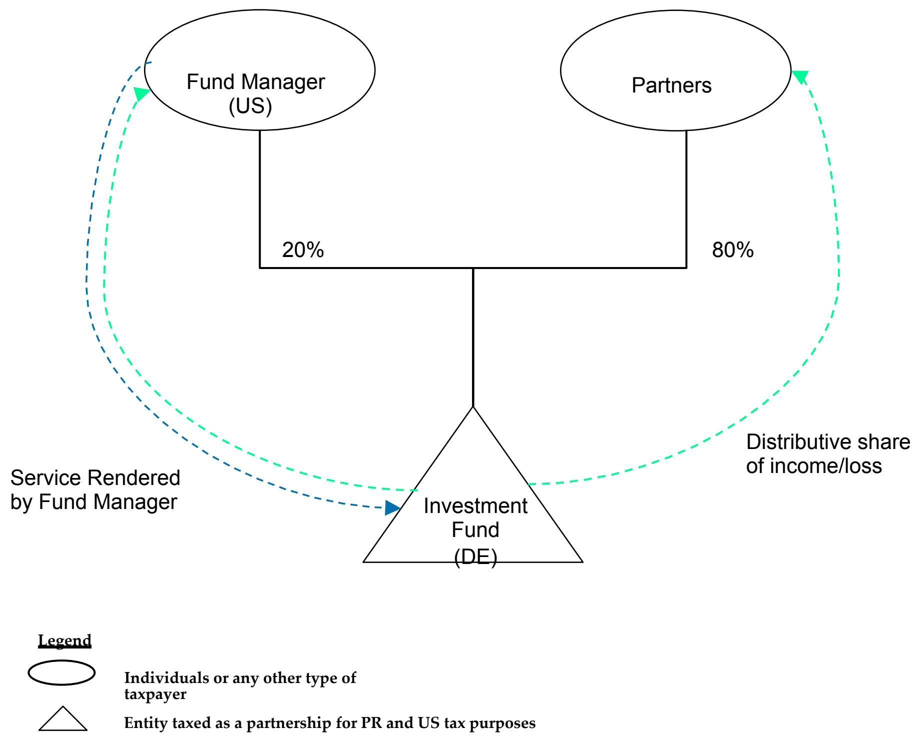


- If the Fund sells capital assets before holding the same for 3 years, any realized gain allocated to the managers holding the profit interest will be taxed at ordinary income tax rates. (The US Scenario)

- If the Fund Manager were to **restructure** its compensation as a basic fee plus a contingent fee based on certain metrics and (i) the services were rendered from Puerto Rico, (ii) using a Puerto Rico entity not engaged in business in the United States, and (iii) managers were residing in Puerto Rico, through Act 20, the net income from services would only suffer a 4% PR income tax (no federal income tax). There would be no impact on the tax treatment of the service income regardless of the holding period of the underlying assets of the partnership being sold. (The PR Scenario)

Impact to Individual Taxpayers

Example: Hedge Funds-After Tax Reform, cont.



In the US Scenario:

- A Fund raised capital of $100MM and sold its investments held less than 3 years for $150MM, resulting in a $50MM gain.
- The Manager had 20% carried interest, therefore his or her distributive share of the gain is $10MM.
- The gain is taxed at a 37% ordinary rate, resulting in a net after tax **$6.3MM**.

OR

- The Fund sells investments held for more than 3 years, resulting in a $50MM gain.
- With a carried interest of 20%, his or her distributive share of the gain is $10MM
- The gain is taxed at a capital gain of 20% plus 3.8% of NIIT, resulting in a **$7.62MM**

Section IV:

OUR TEAM

- If you have any questions or comments, or wish additional information regarding this presentation, please contact:

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