

American Industrial Partners Tax Summit

AMERICAN INDUSTRIAL PARTNERS



Unique Tax Issues for Partnerships



RSM Team

Justin Gurney

Principal

AIP M&A Tax Lead

Justin.Gurney@rsmus.com



Toni Thereault

Partner

AIP PortCo Tax Lead

Toni.Thereault@rsmus.com



Private Equity Portfolio Company Tax Life Cycle

Life Cycle Timeline

On-Boarding (Immediate Post-Acquisition Period)

- Post-acquisition (first 1-2 months)
 - Understanding the legal entity structure
 - Portco Mgmt team + advisor team to walk through the following:
 - Roles / responsibilities
 - Structure step-plan + post-transaction legal structure (org. chart)
 - Tax due diligence report + “100-day plan”
 - Income tax filing calendar
 - Statutory + investor timelines

Holding Period (Post-Acquisition and Pre-Exit)

- Post-acquisition & Pre-Exit
 - Execute items on 100-day plan (remediate exposures identified during diligence + complete other post-acquisition compliance items (i.e. tax purchase price allocations, transaction cost analysis, elections, etc.))
 - Schedule regular planning calls (i.e. quarterly) between RSM and Portco Mgmt teams
 - Follow tax compliance calendar + plan
 - Advise on pre-exit transactions (i.e. ->
 - Add-on deals / divestures
 - Sale leasebacks
 - Leveraged distributions
 - Complete sell-side due diligence readiness

Exit

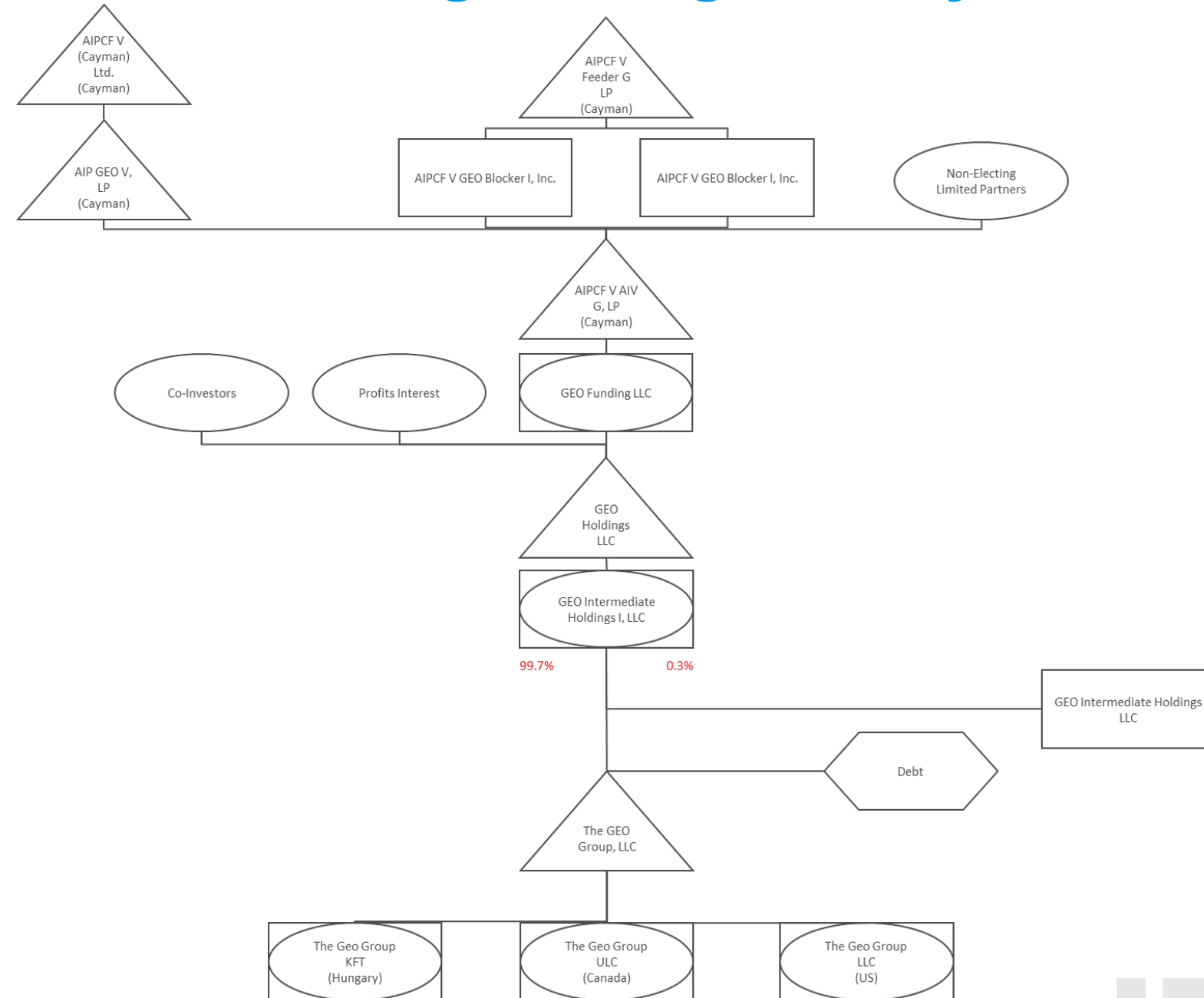
- Post-holding Period
 - Analyze optimal exit tax structure
 - Estimate tax attributes
 - Identify and remediate risks / exposures
 - Sell-side tax due diligence assistance
 - Gain and tax liability calculations

The First 100 Days

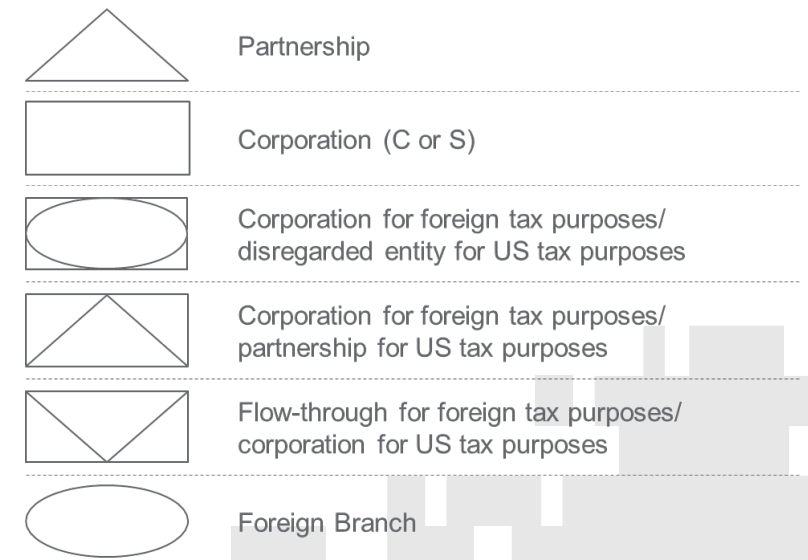
- Understanding the legal entity structure and tax reporting implications
 - Statutory and investor
- Review the "100 Day Plan"
 - Incorporates recommended actions from tax diligence report based on findings
 - Check-list of post-transaction administrative filings (i.e. "Check-the-Box" elections)
 - Summarizes requirements per the purchase agreement + timing
 - Tax purchase price allocation
 - Other tax planning items
 - Transaction cost analysis
 - State nexus analysis
 - Debt analysis
 - Tax accounting methods adoption
- Review operating agreement, set-up capital accounts, model the waterfall (income allocations)



Understanding the Legal Entity Structure



- Statutory and investor reporting obligations
 - Legal entity tax classifications and tax implications
- Blockers
 - ECI and UBTI sensitive investors
- Profits interest
 - Separation of K-1 and W-2 recipients
 - Alternative structures
- Debt
 - Movement of cash



Full-Year Tax Calendar

***For acquisition in June of the prior year**

January	<ul style="list-style-type: none"> - Refresh on structure deck + 100 day plan (for any items not already addressed) - Complete tax purchase price allocation (due 90 days post finalization of purchase price) - Walk through tax return / K-1 information requests
February	<ul style="list-style-type: none"> - Mgmt team working through (audit and tax) information requests / regular calls to talk through questions / issues - Draft K-1s to PE fund (end of Feb / early March)
March	<ul style="list-style-type: none"> - Partnership tax extensions due March 15th
April	<ul style="list-style-type: none"> - Draft K-1s to profits interest members (early April) - Individual tax extensions due April 15th - Corporate tax extensions due April 15th
May	<ul style="list-style-type: none"> - Prepare Q2 estimates (due June 15th), if applicable - Final K-1s to PE fund (end of May)
June	<ul style="list-style-type: none"> - Q2 estimates due June 15th - Final K-1s to profits interest members

July	<ul style="list-style-type: none"> - File partnership tax returns (statutory due date of September 15th) - Debrief on current year tax process with advisors + mgmt team + mid-year update
August	<ul style="list-style-type: none"> - Prepare Q3 estimates (due September 15th), if applicable
September	<ul style="list-style-type: none"> - Q3 estimates due September 15th - Final K-1s to profits interest members
October	<ul style="list-style-type: none"> - Individual tax returns due October 15th - Corporate tax returns due October 15th
November	<ul style="list-style-type: none"> - Prepare Q4 estimates (due December 15th / January 15th), if applicable - Planning discussions
December	<ul style="list-style-type: none"> - Estimated taxable income to PE Fund (early December) - Q4 estimates due December 15th / January 15th - Planning discussions

Investor Expectations / K-1 Reporting

- Partnership tax driven by investor reporting obligations
 - Communication with investors, other third-party tax preparers, and company management
 - Legal entity tax classifications and tax implications
 - Expanded reporting requirements (i.e. tax basis capital, K-3)
- Investor Profiles
 - Fund
 - Fund reporting covenants
 - Multi-tier reporting
 - Institutional investors
 - Lenders
 - Profits interest holders
 - Rollover members

651123
OMB No. 1545-0123

Schedule K-1 (Form 1065) 2024

Department of the Treasury Internal Revenue Service For calendar year 2024, or tax year beginning / / 2024 ending / /

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss)	14 Self-employment earnings (loss)
2 Net rental real estate income (loss)	
3 Other net rental income (loss)	15 Credits
4a Guaranteed payments for services	
4b Guaranteed payments for capital	16 Schedule K-3 is attached if checked <input type="checkbox"/>
4c Total guaranteed payments	17 Alternative minimum tax (AMT) items
5 Interest income	
6a Ordinary dividends	
6b Qualified dividends	18 Tax-exempt income and nondeductible expenses
6c Dividend equivalents	
7 Royalties	
8 Net short-term capital gain (loss)	19 Distributions
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	20 Other information
9c Unrecaptured section 1250 gain	
10 Net section 1231 gain (loss)	
11 Other income (loss)	
12 Section 179 deduction	21 Foreign taxes paid or accrued
13 Other deductions	

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

C IRS center where partnership filed return:

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

G General partner or LLC member-manager Limited partner or other LLC member

H1 Domestic partner Foreign partner

H2 If the partner is a disregarded entity (DE), enter the partner's: Name TIN

I1 What type of entity is this partner?

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	%	%
Loss	%	%
Capital	%	%

Check if decrease is due to:
 Sale or Exchange of partnership interest. See instructions.

K1 Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	\$	\$
Qualified nonrecourse financing	\$	\$
Recourse	\$	\$

K2 Check this box if item K1 includes liability amounts from lower-tier partnerships

K3 Check if any of the above liability is subject to guarantees or other payment obligations by the partner. See instructions

L Partner's Capital Account Analysis

Beginning capital account	\$
Capital contributed during the year	\$
Current year net income (loss)	\$
Other increase (decrease) (attach explanation)	\$
Withdrawals and distributions	\$()
Ending capital account	\$

M Did the partner contribute property with a built-in gain (loss)?
 Yes No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Beginning	\$
Ending	\$

For IRS Use Only

22 More than one activity for at-risk purposes*
23 More than one activity for passive activity purposes*
*See attached statement for additional information.

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11994R Schedule K-1 (Form 1065) 2024

Profits Interests

- Incentivize management and provide preferential tax treatment on exit
- Tax reporting considerations
 - 83b elections
 - Tax returns for mgmt entity (if applicable)
 - K-1s to recipients
- Communication and expectations
 - Introduction letters and FAQ
 - Income allocations / tax distributions
 - Best practices
 - Extensions, record-keeping, tax advisors
 - "Please consult your tax advisor"

Form 1040 Department of the Treasury—Internal Revenue Service **2023** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2023, or other tax year beginning _____, 2023, ending _____, 2020. See separate instructions.

Your first name and middle initial _____ Last name _____ Your social security number _____

If joint return, spouse's first name and middle initial _____ Last name _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____ Presidential Election Campaign

City, town, or post office. If you have a foreign address, also complete spaces below. _____ State _____ ZIP code _____ Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Foreign country name _____ Foreign province/state/country _____ Foreign postal code _____

Filing Status Single Married filing jointly (even if only one had income) Head of household (HOH) Married filing separately (MFS) Qualifying surviving spouse (QSS)

Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: _____

Digital Assets At any time during 2023, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction Someone can claim: You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1959 Are blind **Spouse:** Was born before January 2, 1959 Is blind

Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):	
(1) First name	Last name			Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	1b	1c	1d	1e	1f	1g	1h	1i
1a Total amount from Form(s) W-2, box 1 (see instructions)									
b Household employee wages not reported on Form(s) W-2									
c Tip income not reported on line 1a (see instructions)									
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)									
e Taxable dependent care benefits from Form 2441, line 26									
f Employer-provided adoption benefits from Form 8839, line 29									
g Wages from Form 8919, line 6									
h Other earned income (see instructions)									
i Nontaxable combat pay election (see instructions)									

The Operating Agreement

- Distribution provisions
 - Operating distributions
 - Tax distributions

- Allocation of income to the partners

- Partner capital
 - Tax capital
 - Sec. 704b "book" capital

- Tracking of tax basis vs. tax capital

- Sec. 704(c) methods
 - Traditional
 - Traditional with curative
 - Remedial

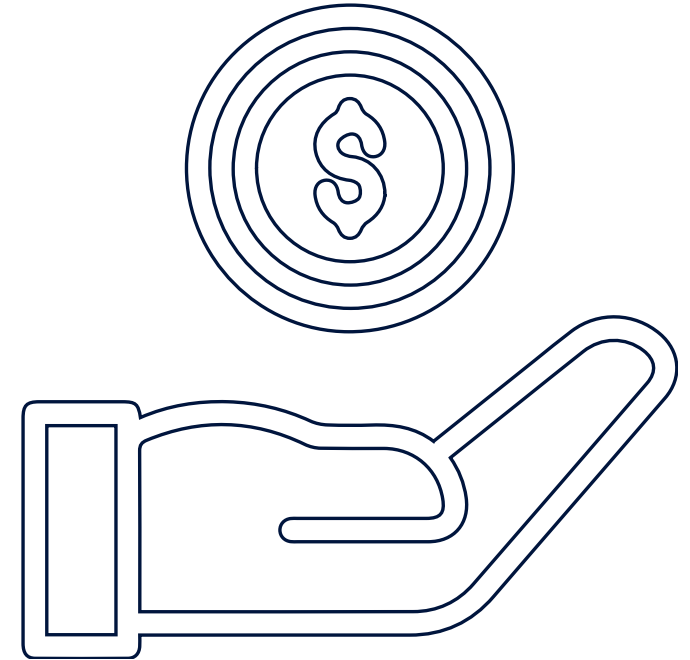
- Partnership tax representative

LIMITED PARTNERSHIP (LP) AGREEMENT

- I. **PARTNERSHIP DETAILS.** This Limited Partnership Agreement ("Agreement") dated on _____, 20____ ("Effective Date") is associated with the following entity:
- a.) Entity Name: _____ formed in the State of _____ with a principal place of business at _____ ("Partnership").
 - b.) General Partners. The Partnership is structured as a Limited Partnership. The General Partner(s) known as _____ ("General Partner(s)") agree to bear all responsibility on behalf of the Partnership. All other Partners are limited partners.
 - c.) Business Purpose. The Partnership's primary business purpose is: _____.
 - d.) Term. This Agreement has an effective start date of _____, 20____ and shall continue: (choose one)
 - **In Perpetuity.** This Agreement will exist indefinitely until the Partnership is dissolved or terminated, the processes for which are enumerated below ("Term").
 - **For a Fixed-Term.** The Partnership will effectively end on _____, 20____ ("Term").
- II. **THE PARTNERS.** The Partnership is organized as follows:
- Partner 1:** _____ with a mailing address of _____.
- a.) Ownership: _____%
 - b.) Capital Contributions: \$ _____
 - c.) Signing Authority: Will the above-named Partner be able to sign contracts on behalf of the Partnership? Yes No
- Partner 2:** _____ with a mailing address of _____.
- a.) Ownership: _____%
 - b.) Capital Contributions: \$ _____
 - c.) Signing Authority: Will the above-named Partner be able to sign contracts on behalf of the Partnership? Yes No
- Partner 3:** _____ with a mailing address of _____.
- a.) Ownership: _____%
 - b.) Capital Contributions: \$ _____

Cash Considerations

- Federal withholding
 - Sec. 1446 withholding on direct foreign investors
- Non-resident state withholding
 - Requirements vary by jurisdiction (Quarterly payments, due dates)
 - State apportionment
 - Deemed distributions
- Entity level state taxes
 - Financial reporting considerations
 - Franchise / gross receipt
- Foreign (local jurisdiction) taxes
 - Financial reporting considerations
- Tax distributions
 - Governed by operating agreement



Tax Planning

Methods

- Accounting methods review
 - Revenue recognition
 - UNICAP
 - Acceleration of prepaids
- Sec. 266
 - Election to capitalize interest that would otherwise be subject to Sec. 163j limitation, to certain assets

Transfer Pricing

- Management of effective tax rates
- Cash repatriation strategies

Credits

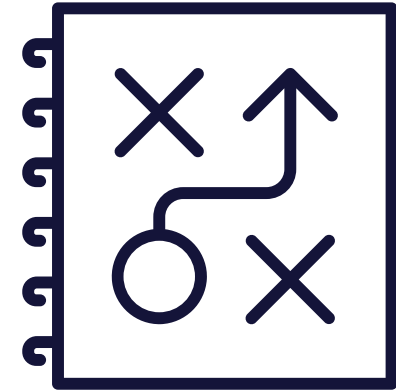
- Federal (i.e. R&D)
- State
 - Job creation / retention
 - Re-location
 - Significant capital investment

State Tax Analysis

- State nexus studies
- State apportionment analysis
 - Reduction of franchise level taxes
 - Sourcing of gain on exit

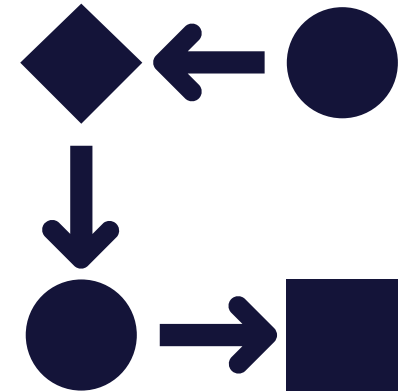
Holding Period Transactions

- Add-on acquisitions
 - Recoverable basis
 - Rollover investors
- Divestitures
 - Gain calculation and tax liability calculations
 - Sell-side diligence
- Entity level state taxes
 - Financial reporting considerations
 - Franchise / gross receipt
- Distributions
 - Tax holdback calculations
 - E&P analysis (for distributions out of corporations in the structure)



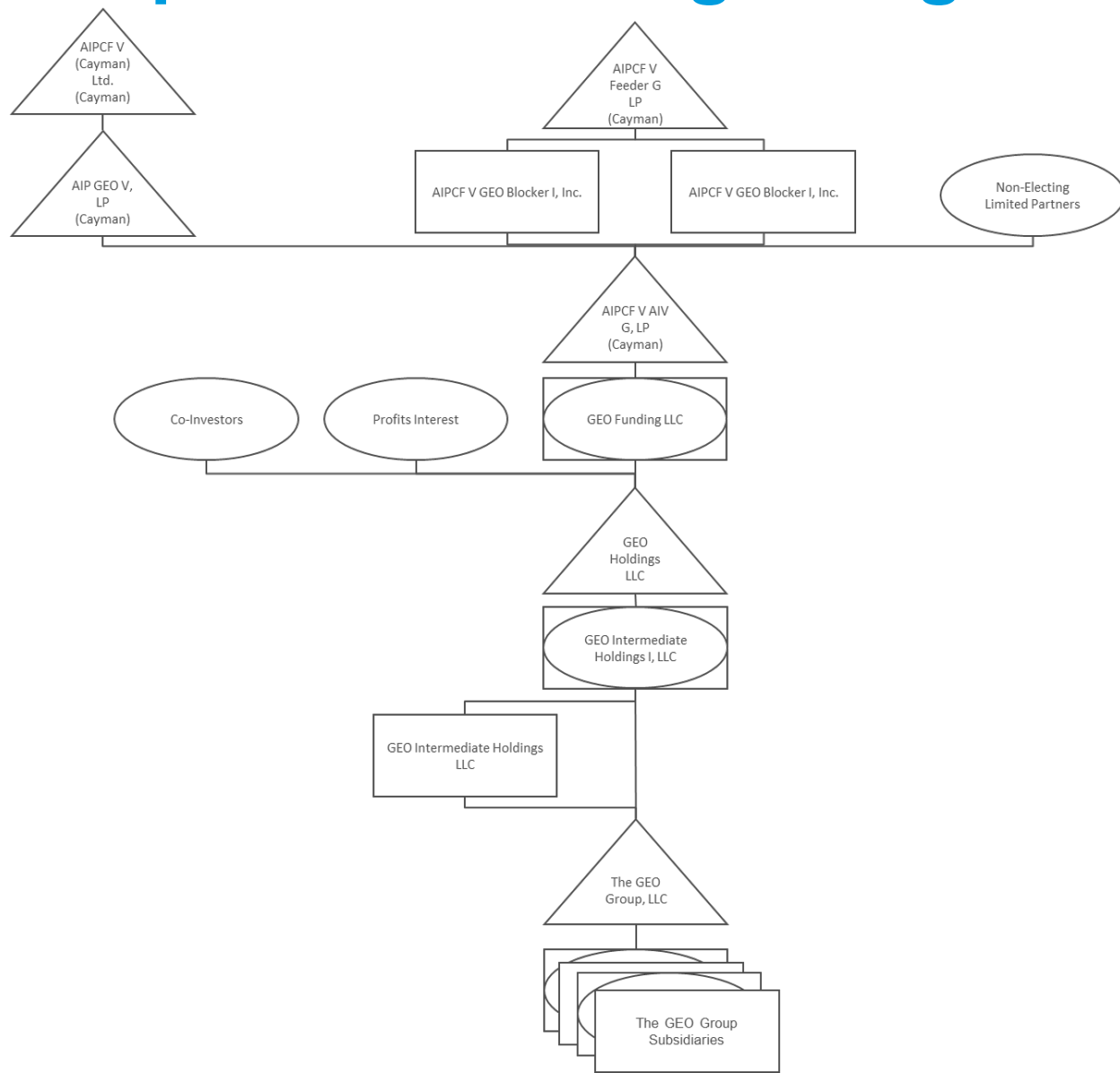
Exit Readiness

- Tax Health-check
 - Understanding the tax landscape, potential issues and opportunities
 - Discuss remediation issues
- Cash management
 - Optimize transfer pricing
 - Monitor tax liabilities / refunds
- Settle intercompany balances and clean-up structure
- Distributions
 - Tax holdback calculations
 - E&P analysis (for distributions out of corporations in the structure)
- Modeling optimal exit structure
 - Push-down of blockers

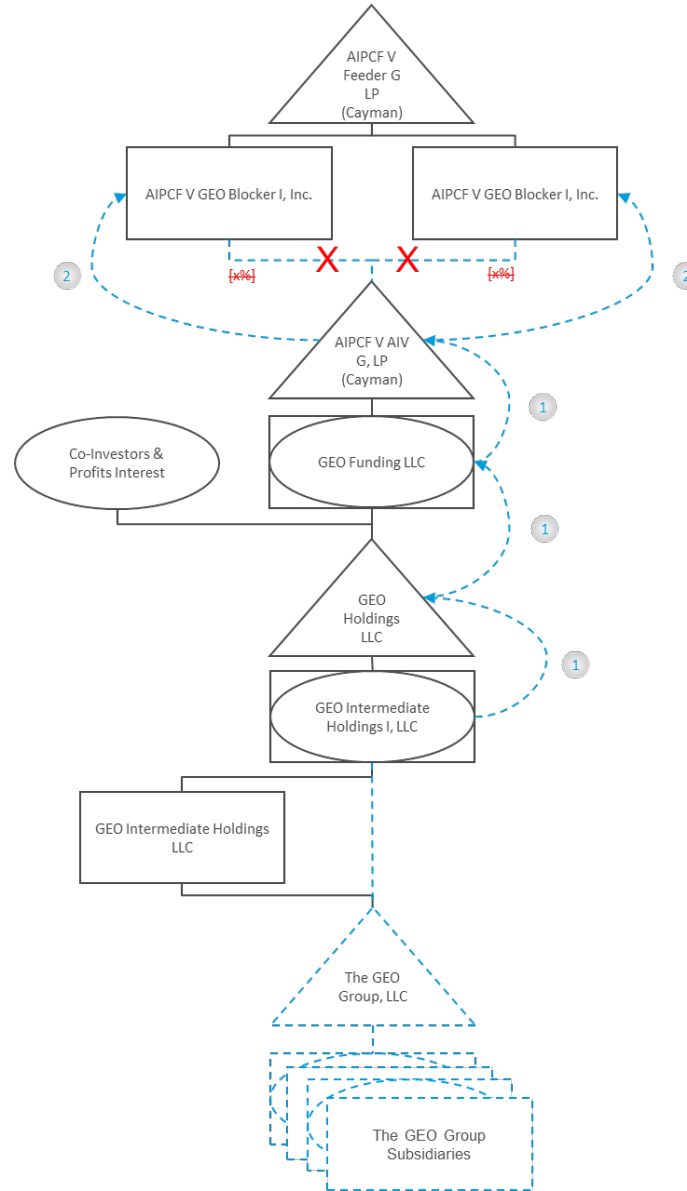


Blocker Push Down

Simplified GEO Beginning Structure



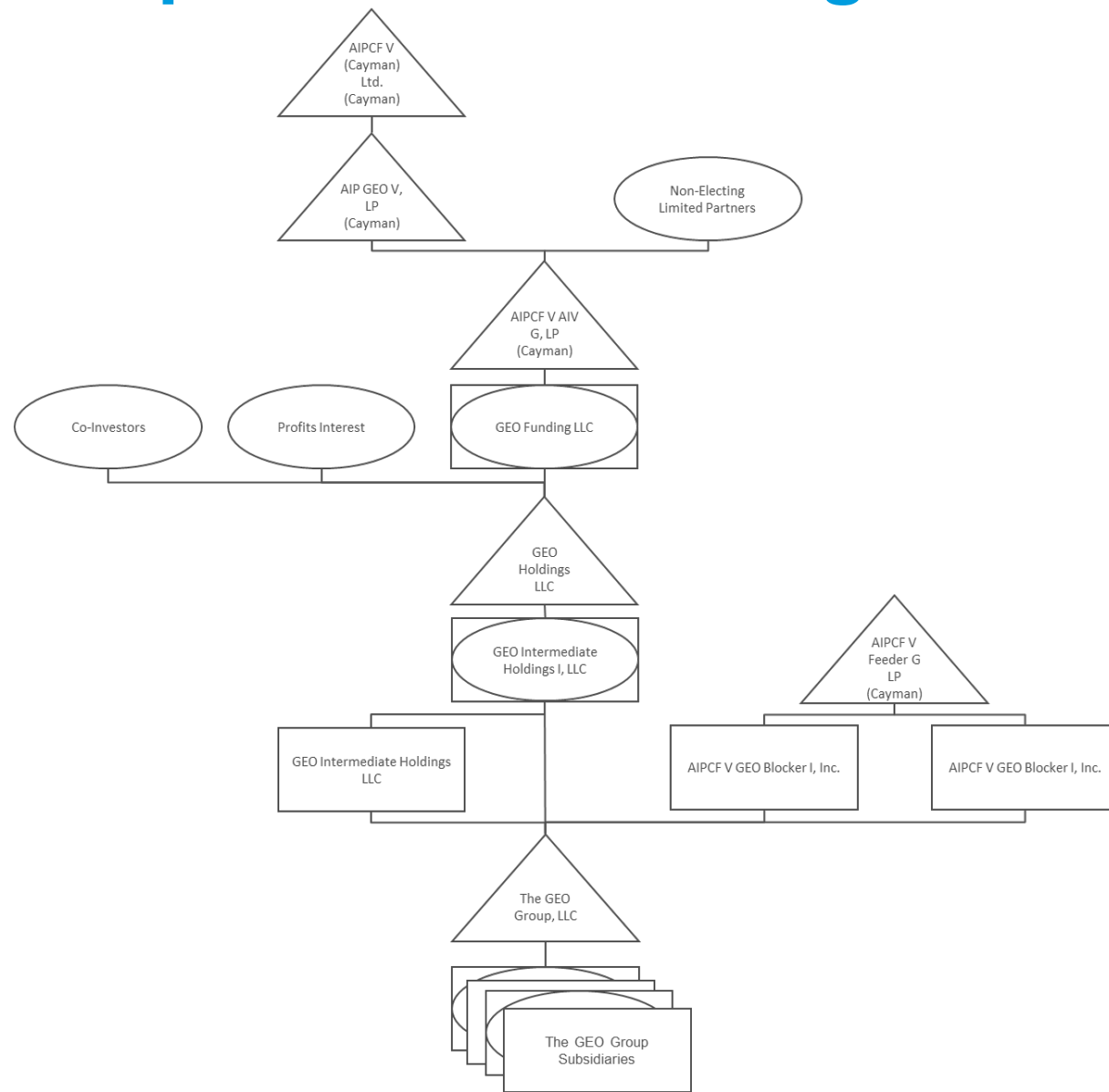
Transaction Steps



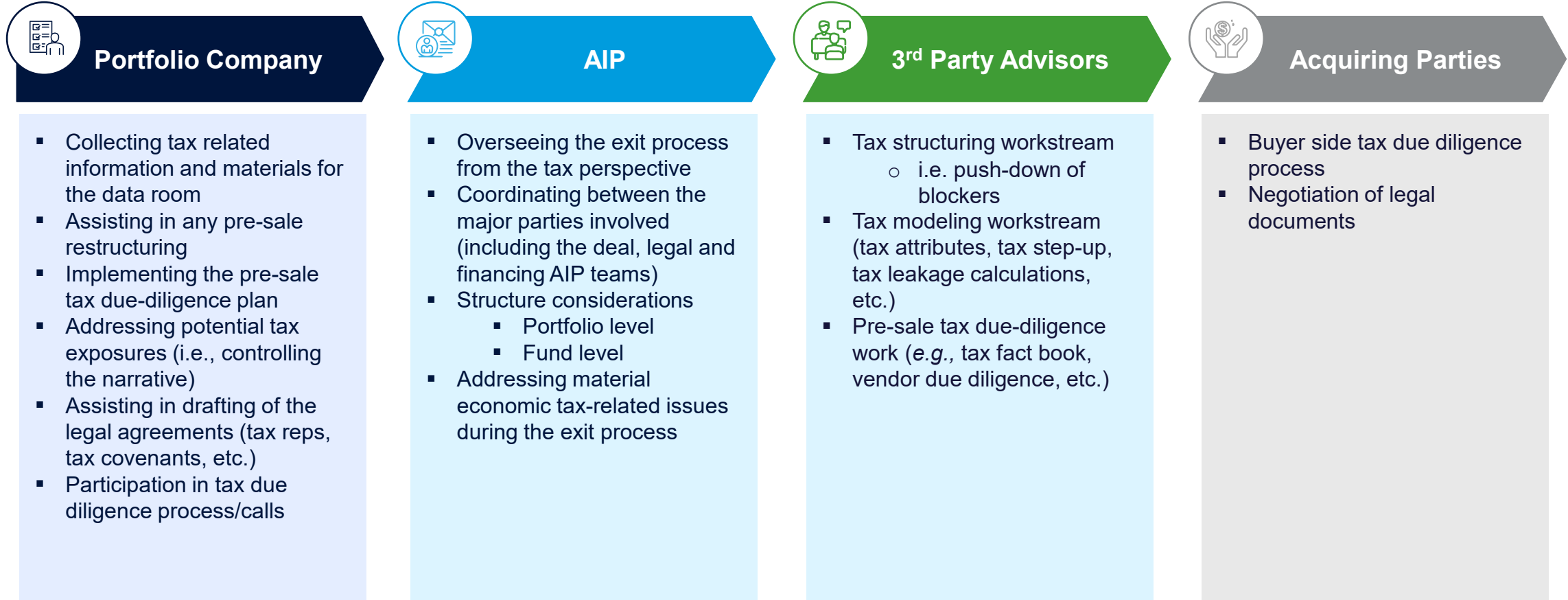
Transaction Steps

1. AIPCF V GEO Blocker I, Inc.’ (“GEO Blocker I”) and AIPCF V GEO Blocker II, Inc.’s (“GEO Blocker II) proportionate membership interests in The GEO Group, LLC (“GEO Group”) is distributed up the chain to AIPCF V AIV G, LP (“AIV G”).
2. AIV G distributes the membership interests of GEO Group received in the distribution to GEO Blocker I and GEO Blocker II in full redemption of GEO Blocker I’s and GEO Blocker II’s partnership interests in AIV G.

Simplified GEO Ending Structure



Exit: Tax Roles and Responsibilities



Comments, Questions,
Open discussion