



# Possible *(Re)Defined*™



Confidence and Clarity



Integrated Solutions



Insight and Foresight



WEBINAR

# Tax Implications of Alternative Investments: *A Deep Dive*

WELCOME

# Today's Presenter



**Eric Fried**

Partner  
Armanino  
Advisory LLC

# Agenda

- Introduction
- Private Equity
- Hedge Funds
- Real Estate
- Commodities
- Venture Capital
- Optimizing Returns and Minimizing Tax Liabilities
- Q&A

## TAX IMPLICATIONS OF ALTERNATIVE INVESTMENTS

# Private Equity

### 1. Capital Gains Treatment

- Essential to understand capital gains tax on private company interests.
- Long-term capital gains (assets held over 1 year) are taxed at lower rates, making them more advantageous.

### 2. Carried Interest

- Fund managers typically receive a share of profits taxed at capital gains rates, not ordinary income rates.
- Important for evaluating fund structures and manager compensation.

### 3. Qualified Small Business Stock (QSBS) Benefits

- Under Section 1202, gains from QSBS can be excluded from federal taxes if criteria are met.
- Potential to exclude up to 100% of gains, enhancing returns and incentivizing investments in qualifying private companies.

## TAX IMPLICATIONS OF ALTERNATIVE INVESTMENTS

# Hedge Funds

- **Complex Tax Scenarios:**
  - Hedge funds operate as limited partnerships, affecting investors' personal tax returns.
  - Profits and losses pass through to investors, allowing potential tax deferment.
- **Fund Structures:**
  - Vary from domestic to offshore setups.
  - Offshore funds can provide tax benefits for non-U.S. investors, appealing to high-net-worth individuals.
- **Tax Management Strategies:**
  - Techniques include tax-loss harvesting and strategic timing of capital gains/losses.
  - Essential for investors to collaborate with fund managers and tax advisors to enhance after-tax returns.

## TAX IMPLICATIONS OF ALTERNATIVE INVESTMENTS

# Real Estate

- **Depreciation**
  - Allows investors to deduct property costs over time (27.5 years for residential, 39 years for commercial).
  - Reduces taxable income, leading to tax savings and improved cash flow.
  - Note: Depreciation recapture may apply upon property sale.
- **1031 Exchanges**
  - Defers capital gains taxes when exchanging one investment property for another.
  - Enables reinvestment without immediate tax liability.
  - Requires strict adherence to guidelines and timelines; collaboration with professionals is key.
- **Passive vs. Active Income**
  - **Passive Income:** From rental properties with minimal management involvement; enables certain tax benefits.
  - **Active Income:** Involves more management; can qualify for deductions and credits but may incur higher tax rates.

## TAX IMPLICATIONS OF ALTERNATIVE INVESTMENTS

# Commodities

### ■ Physical Commodities

- Gains from gold, silver, or oil treated as capital gains.
- Profits may be classified as collectibles, subject to a higher 28% capital gains tax.
- Consider storage and insurance costs, which can have tax implications.

### ■ Commodity Futures

- Subject to Section 1256 of the Internal Revenue Code.
- Gains/losses treated as "60/40":
- 60% taxed at long-term capital gains rate.
- 40% taxed at short-term rate.
- Favorable tax treatment benefits active traders.



## TAX IMPLICATIONS OF ALTERNATIVE INVESTMENTS

# Venture Capital

### 1. Venture Capital Overview

- Investing in high-growth startups can be lucrative but complex.
- Understanding tax implications is crucial for maximizing returns.

### 2. Tax Aspects

- Gains tax treatment varies by holding period and investment structure.
- Long-term capital gains rates apply if held for over one year.
- Qualified Small Business Stock (QSBS) can provide capital gains exclusion.

## TAX IMPLICATIONS OF ALTERNATIVE INVESTMENTS

# Venture Capital

### 3. Exit Strategies

- Different strategies (IPOs, acquisitions, secondary sales) have unique tax impacts.
- IPOs may trigger significant capital gains taxes.
- Deal structure (cash vs. stock) affects tax outcomes.

### 4. Potential Tax Incentives

- Various incentives exist to encourage investments in innovation.
- Some jurisdictions offer tax credits/deductions for investments in qualified startups.
- Consulting tax professionals is recommended for optimizing strategies and ensuring compliance.

## TAX IMPLICATIONS OF ALTERNATIVE INVESTMENTS

# Optimizing Returns and Minimizing Tax Liabilities



**Adopt a Proactive Approach:**  
Implement various practical strategies.



**Stay Informed:**  
Regularly review current tax laws and regulations and ensure compliance and optimize tax efficiency.



**Leverage Tax-Advantaged Accounts:**  
Use IRAs or 401(k)s to defer taxes on investment gains.



**Utilize Tax-Loss Harvesting:**  
Offset capital gains with realized losses to reduce taxable income.



**Timing Matters:**  
Hold investments for over a year for lower long-term capital gains rates.



**Explore Additional Options:**  
Consider 1031 exchanges in real estate or QSBS exclusions in venture capital for tax relief.



**Consult Professionals:**  
Work with a tax professional or financial advisor for tailored strategies.

## TAX IMPLICATIONS OF ALTERNATIVE INVESTMENTS

# Conclusion

**Understanding Structures:**

Familiarize yourself with different investment structures (e.g., hedge funds, real estate, venture capital) as these can have significant tax implications.

**Leverage Tax Advantages:**

Take advantage of tax benefits such as depreciation in real estate, 1031 exchanges, and QSBS exclusions for venture capital investments to optimize returns.



**Tax-Loss Harvesting:** Employ tax-loss harvesting strategies to offset gains with losses, effectively reducing taxable income.

**Long-Term Investment**

**Holding:** Aim to hold investments for longer than one year to benefit from lower long-term capital gains tax rates.

**Consult Professionals:**

Engage with tax advisors who specialize in alternative investments to navigate complexities and remain updated on regulatory changes.



**Stay Informed:** Regularly review tax laws and investment strategies to ensure compliance and enhance tax efficiency in your investment portfolio.

Thank you for  
attending

Additional Questions?

*Reach out to us at*

[experts@armanino.com](mailto:experts@armanino.com)



# Armanino Operates in an Alternative Practice Structure:

“Armanino” is the brand name under which Armanino LLP, Armanino CPA LLP, and Armanino Advisory LLC, independently owned entities, provide professional services in an alternative practice structure in accordance with law, regulations, and professional standards. Armanino LLP and Armanino CPA LLP are licensed independent CPA firms that provide attest services, and Armanino Advisory LLC and its subsidiary entities provide tax, advisory, and business consulting services. Armanino Advisory LLC and its subsidiary entities are not licensed CPA firms.