



cutting through complexity

Alternative Investments: State and Local Tax Services

kpmg.com





Staying ahead of state and local tax issues and trends to make better business decisions

Our commitment to you

We aim to:

- Serve with passion and commitment, providing you with real-time access to experienced, technical resources who know your industry and the states where you are operating
- Provide you with a work product that is high-quality, timely, accurate, and tailored to meet your specific needs
- Help you navigate through the complex state and local and global tax landscapes, by highlighting the key tax issues affecting your business and communicating our insights in a manner that is impactful for both experienced tax professionals and nontax executives
- Provide tax planning services that are effective and accompanied, when needed, by careful implementation and ongoing execution support
- Focus on helping you improve your bottom line
- Build and maintain a long-term relationship with you that helps drive value to your organization

The accelerated pace of change is impacting the alternative investment (AI) industry globally. But just as critically, changes at the state and local level have created a multitude of tax risks that AI funds and managers must attempt to identify and mitigate. These changes can significantly impact both the effective tax rate and the cash posture of funds, managers, and investors.

Analysis and management of these impacts are complicated by frequently changing tax laws across multiple jurisdictions and lack of guidance in interpreting new laws. Fund managers must employ an integrated analysis and approach that addresses a variety of risks, increasing enforcement measures and noncompliance penalties, and a growing scrutiny of tax decisions by investors, financial statement auditors, and tax authorities.




In this fast-paced environment, there are several reasons why state and local taxes have become a constant issue for AI companies, including:

- **Legal structure** – While most states do not impose income tax on entities treated as partnerships, the legal structure of an AI fund or management company can directly impact how and where the investors are taxed on income earned by a partnership. In addition, an organization's legal structure can impact the tax costs of acquiring and disposing of fund assets and operations.
- **Compliance and investor tax reporting** – Complying with various state and local filing and payment requirements, as well as providing timely and accurate tax information to investors, is high on every fund manager's list. However, many AI fund sponsors do not have the in-house capacity to prepare the state and local information and tax returns required of their funds, especially when a significant level of volume is involved.
- **Significant transactions** – AI funds frequently undertake significant business transactions—such as acquiring or disposing properties or investments, obtaining funding through the new investors, redeeming existing investors, or expanding to new markets and jurisdictions.

These transactions may give rise to numerous state and local tax issues, such as filing requirements, gain and loss treatment, structural concerns and opportunities, transfer taxes, and investor income tax withholding.

- **Potential tax exposures** – Recent trends in state tax legislation have increased potential exposure for many AI funds. Potential exposure areas include nexus and filing requirements, allocation or apportionment of income and losses in various jurisdictions, investor income tax withholding, and entity-level taxes.
- **Employee travel and remote work environments** – State and local jurisdictions increasingly are focused on the tax implications of individuals that travel into and perform services within their jurisdictions. In some jurisdictions, having a single employee working remotely from a home office can trigger income and franchise tax obligations for the employer. Employee travel can create state and local filing and payroll tax withholding requirements for the employer as well as state and local filing requirements for the employee.



Our people

Our clients

We provide integrated tax services for funds, managers, and investors across the range of AI products, including:

- Commodity pools
- Fund of funds
- Hedge funds
- Hybrid products
- Infrastructure funds
- Private equity funds
- Real estate funds
- Venture capital funds
- Separate account investments
- Real estate investment trusts

KPMG LLP's (KPMG) State and Local Tax (SALT) practice has a dedicated group of professionals who work closely with KPMG's AI tax and audit engagement teams in providing services to clients in the AI fund industry. Our SALT professionals approach the industry from all angles to provide various service offerings to meet your needs.

KPMG's State Tax Resource Network (STRN) is also available to assist in addressing complex issues, responding to assessment notices, and managing tax audits in specific states. Many of our STRN professionals have years of experience and knowledge in working with their respective jurisdiction, including time spent with the state's taxing authority. Our STRN professionals can provide valuable insights regarding state technical issues, managing the audit process, and helping expedite conflict resolution.

We often draw upon the resources of our Washington National Tax (WNT) practice, one of the largest, most experienced, and technically diverse tax knowledge centers in the world focusing on all aspects of U.S. federal, state, local, and international direct and indirect taxation. WNT is the technical core of KPMG's Tax practice, housing approximately 200 senior-level tax professionals, including 15 professionals dedicated to SALT. Many of those professionals have prior job experience not only in the fund industry, but also with various federal, state, and local executive, legislative, and/or judicial bodies.

Around the globe, KPMG's AI member firm network comprises more than 2,000 Audit, Tax, and Advisory professionals, including 225 partners who focus on serving AI funds and their sponsors in all significant industry locations in a wide variety of tax technical areas.



Our technology

We believe that KPMG is at the forefront of technology focused specifically on tax, from planning to compliance and much more. KPMG has extensive experience in designing and building effective technology that meets your needs and supports delivery of our SALT services.

We utilize our proprietary Partner Forms Tools (PFT) software, which utilizes detailed state-by-state research performed by professionals in our STRN. PFT enables us to prepare state K-1s efficiently and quickly compute withholding requirements while maintaining a record of payments, helping ensure consistency and accuracy.

In addition, our Partnership Exemption Certificate Software (PECS) helps facilitate the process of obtaining and organizing appropriate documentation to support withholding exemptions.

In addition to our own Web-based tools, our SALT professionals work closely with our Advisory practice to help clients' IT departments develop the programs necessary to pull from their systems the information necessary to comply with state reporting and payment requirements.



Our services

Our AI professionals serve a broad range of AI managers and funds – from the AI product groups of diversified global financial institutions to those of start-up investment managers. Our clients include funds of varying structures – from private partnerships to funds registered with the U.S. Securities and Exchange Commission (SEC).

KPMG provides an array of SALT planning and compliance services to help AI funds, managers, and investors face these challenges.

To provide our clients with high-value services, we are continuously improving our approach. We put a premium on carefully listening to our clients to understand their needs. Finally, we make significant investments in internal training, including our AI Immersion course and SALT Bootcamps, which are instructed by our WNT professionals in tandem with operating office partners and managing directors. We also provide industry-focused webcasts and Tax Share Forums for our clients.

AI funds industry: How KPMG's SALT professionals can assist you

KPMG's approach focuses on a coordinated delivery of tax services, with technical specialists aligned to the issues relevant to the AI fund industry. Our compliance process integrates technical experience with technology to help you meet your reporting and payment deadlines. Our philosophy on tax consultation and entity structuring is to make the tax

advice work with your business plan. We believe that effective tax planning emanates from the free flow of ideas, in a series of open and timely communications between us and our client's management team, attorneys, and other consultants.

Our SALT professionals can assist you in a variety of ways:

- Assist with state and local income tax compliance
- Identify and quantify potential tax exposure areas
- Help develop tax efficient structures
- Analyze the state and local tax issues in complex transactions
- Help comply with state partnership withholding
- Analyze impact of legislative and judicial developments
- Address tax issues related to employee travel
- Provide state and local tax audit defense and controversy support

The KPMG difference

Two factors distinguish us in the marketplace: the depth of our industry-focused knowledge and our ability to deliver integrated tax services that are practical, relevant and business-oriented on a national basis through our STRN and on a global basis through KPMG International's network of member firms.

Our high-performing people mobilize around our AI fund clients, using our knowledge and insight to cut through complexity and deliver informed perspectives and clear methodologies that our clients and stakeholders value. In essence, KPMG means *high-performing people cutting through complexity*.

Our client focus, commitment to excellence, global mind-set, and consistent delivery build trusted relationships that are at the core of our business and reputation.

Contact us

KPMG's AI professionals can help you navigate the most complex business issues affecting your business decisions. For more information about how we can help you with KPMG's SALT services, please contact your KPMG adviser or one of KPMG's SALT AI practice leaders:

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The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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