The Private Placement Advantage:

Foreign Investments in U.S. Real Estate

Taxation Effects on Non-U.S. Real Estate Investors

The primary tax impediments to foreign investment in U.S. real estate are U.S. Income Taxes, Capital Gains Taxes, Withholding Taxes (30%), and U.S. Estate Taxes. Utilizing Private Placement Life Insurance (PPLI) in combination with trusts and LLC elements eliminates U.S. taxes.

Obstacles for Non-U.S. Real Estate Investors

1) Effectively Connected Income (ECI):

- Although non-U.S. investors' gains from US equities are not always taxable, income and capital gains from their real estate investments are taxable as ECI under Internal Revenue Service Publication 519. U.S. rental income allocable to a foreign investor is not entitled to any treaty preferences. ECI is taxed to foreign investors under the same ordinary income tax rates that apply to U.S. taxpayers. Foreign investors that receive ECI are also required to file US federal and state income tax returns. To make matters worse, FIRPTA rules (described below) transform sales of equity interests and capital gains/dividends from REITs into ordinary income.

2) Foreign Investment in Real Property Tax Act (FIRPTA):

- Enacted in 1980 to combat perceived unfair advantages for foreign investors in U.S. real estate, FIRPTA imposes significant taxes on dispositions of US real property interests. Specifically, Section 897 of the Internal Revenue Code of 1986, treats such capital gains and dividends as ECI. In addition, withholding tax rules also apply with regard to US counterparties in such transactions.

3) Non-US Regulatory Concerns:

- In addition to U.S. tax issues, non-U.S. investors have non-U.S. tax and regulatory burdens. Non-U.S. investors must also comply with reporting requirements in their home jurisdictions, creating additional tax drag and accounting costs.

Summary:

- Non-U.S. investors will continue to make significant U.S. Real Estate investments for a variety of reasons. In light of this fact, it is crucial that real estate advisors, investors, and asset managers understand the tax challenges, and potential solutions for both domestic and non-U.S. investors. Private Placement strategies are ways to generate taxation alpha on real estate investments, giving investors increased real returns through tax savings as well as enhanced privacy from regulators.

Using Private Placement Strategies to Minimize Tax Drag

Foreign investors in U.S. Real Estate face many hurdles and entirely optional taxation drag. Private Placement Strategies are well-established tax and estate planning tools that are used to eliminate taxes.

Private Placements combine a flexible investment platform with the tax advantages of IRS Regulation 7702. The investment platform can accommodate all asset classes and virtually any investment strategy. This is possible through the skillful use of Separately Managed Accounts (SMAs) and Insurance Dedicated Funds (IDFs). SMAs and IDFs are IRS designated "Safe Harbors" and therefore sidestep reporting requirements and tax liability.

Investment strategies can remain intact and be simply "dropped in" to Private Placements. PPLI can accommodate most custodians, funds, alternative managers, and individual direct investments. The transition to a Private Placement strategy is as simple as other less effective structures.

PPLI also provides simplified reporting and confidentiality. The owner only reports a life policy, not investment income or growth of asset value.

Private Placement Life Insurance Provides:

- Tax Free Asset Growth
- Tax free payment of death benefit (removing U.S. Estate Taxes)
- No capital gains or income taxes
- Tax free return of principal at any time
- Liquid access to gains through tax free loans

❖ The additional expense of adding PPLI to an investment strategy pales in comparison to the elimination of U.S. taxation. These advantages make private placement strategies the obvious choice for non-U.S. investors as these favorable outcomes cannot be achieved in any other U.S. compliant investment structure.

Private Placement Strategies vs. Other Common Structures						
Commonly Used Structures	***Tax Drag***					
	Capital Gains Tax	***Medicare Tax***	***Withholding Tax On Related Party Interest Payments***	***Interest Expense Deduction Limits***	***Estate Tax Protection***	***Distributions Create Additional Withholding Taxes***
Trust with LLC	*Yes at 20%*	*Yes at 3.8%*	*No*	*90% Limit*	*No*	*No*
Dual Corporation	*Yes at 35%*	*No*	*Yes at 30%*	*60% Limit*	*Yes*	*Yes at 30%*
Individual with LLC	*Yes at 20%*	*No*	*No*	*80% Limit*	*No*	*No*
PPLI	*No*	*No*	*No*	*No*	*Yes*	*No*

Private Placement Life Insurance is an unregistered securities product and is not subject to the same regulatory requirements as registered variable products. As such, Private Placement Life Insurance (or Annuities) should only be presented to accredited investors or qualified purchasers as described by the Securities Act of 1933. Variable life insurance products are long-term investments and may not be suitable for all investors. An investment in variable life insurance is subject to fluctuating values of the underlying investment options and it entails risk, including the possible loss of principal. South Wake Capital is independently owned and operated.

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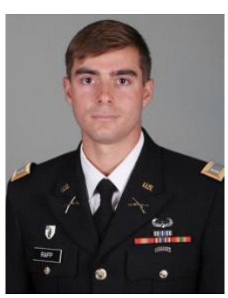

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