FOREIGN OWNERSHIP OF MLPS
General Rules

- Non-U.S. persons bear full U.S. federal income tax on income “effectively connected” with a U.S. trade or business (such income, “ECI”)
- If a partnership (including an MLP) is engaged in a U.S. trade or business, then each of its non-U.S. owners is deemed to be engaged in that U.S. trade or business
- This rule applies without regard to the number of partnership tiers between the partnership engaged in the U.S. trade or business and the non-U.S. owner
- An MLP that generates ECI must withhold on ECI allocated to the non-U.S. owner. MLPs (including via brokers) withhold on gross distributions. The withholding tax is credited against the actual U.S. federal income tax liability of the non-U.S. owner

FOREIGN OWNERSHIP OF MLPS
Distribution Notice in Press Release

Qualified Notice to Nominees:

"This release serves as qualified notice to nominees as provided for under Treasury Regulation Section 1.1446-4(b)(4) and (d). Please note that 100 percent of the Partnership's distributions to foreign investors are attributable to income that is effectively connected with a United States trade or business. **Accordingly, all of the Partnership's distributions to foreign investors are subject to federal income tax withholding at the highest effective tax rate for individuals or corporations, as applicable**. Nominees, and not the Partnership, are treated as withholding agents responsible for withholding distributions received by them on behalf of foreign investors."

FOREIGN OWNERSHIP OF MLPS
Withholding Example

- Assume that foreign individual purchases MLP unit for $20 at the beginning of Year 1
  - MLP distributes $2.00 of cash and allocates $1.00 of income in Year 1
  - Foreign purchaser sells MLP unit for $23 at beginning of Year 2
  - Ordinary income tax rate of 35%
- MLP will withhold $0.70 of cash from the $2.00 distribution (i.e., the investor will only receive distributions totaling $1.30 in Year 1)
- The $0.70 of withholding is a credit against the investor's U.S. federal tax; the investor must file a U.S. tax return to reclaim the credit
- For Year 1, the investor's U.S. tax return would show tax of $0.35 ($1.00 of income x 35% ordinary income tax rate)
  - Nonetheless, because $0.70 has already been withheld, the investor should receive a refund of $0.35
  - Year 1, after-tax cash of $1.65 if the investor pays U.S. tax; after-tax cash of $1.30 otherwise

FOREIGN OWNERSHIP OF MLPS

Foreign Corporate Direct Investor[1]

OPERATIONS	US TAX FILING	EXIT: SALE OF MLP UNITS	EXIT: SALE OF INVESTOR
• MLP would have to withhold 35% of distributions to investor (refundable to the investor (refundable to the extent investor's US tax liability is less than amount withheld) • Investor is subject to 35% net-basis income tax on its distributive share of MLP's ECI, reduced to take into account any interest deductions on shareholder debt • 30% (or lower treaty rate) branch profits tax applicable to "effectively connected earnings & profits" of investor	• Investor would have to file US tax return (Form 1120-F) annually	• Gain on sale of MLP units by investor possibly taxable as partially/wholly ECI	• Gain on sale of investor stock not subject to US tax

[1]It is assumed that the MLP is treated as a partnership for U.S. federal income tax purposes and owns real property in the United States sufficient such that the MLP would be treated as a U.S. real property holding corporation if it were a corporation for U.S. federal income tax purposes. It is further assumed that all of the MLP's earnings would be effectively connected with the conduct of a trade or business within the United States if earned directly by a non-U.S. person.