

# TAX BENEFITS OF FLORIDA FOR HEDGE FUNDS AND PRIVATE EQUITY

WITH ITS FAVOURABLE TAX ENVIRONMENT, FLORIDA HAS BECOME A FRIENDLY PLACE TO DO BUSINESS. **SHAUN BLOGG**, OF **MARCUM LLP**, DISCUSSES THE BENEFITS OF THE SUNSHINE STATE FOR HEDGE FUNDS AND PRIVATE EQUITY



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**W**hen doing business in Florida, it's not about the taxes you pay; it's about the taxes you don't pay!

This being the case, Florida has long been a centre for new and expanding business, especially in the financial and service sectors, and has recently become the focal point for the relocation of hedge funds and private equity. Not only has Florida become attractive to the fund managers but also to prime brokers, administrators, attorneys and other service providers to the industry for reasons that include being where the hedge fund activity is and the state tax benefits.

As federal tax rates continue to climb – with the new additional 5% personal income tax on high income earners, the 3.8% Medicare tax on investment income, the 0.9% additional Medicare tax on business income, the 5% increase in capital gains tax, and the possibility of a change in the tax on carried interest – Florida's appeal as a business-friendly tax jurisdiction will only continue to grow. As there is not much that can be done about the federal side, much can be done on the state side.

Florida currently has a corporate income tax rate of 5.5% on corporations that pay tax in their own right, more commonly known as "C Corporations". It also has a sales and use tax of 6% and a number of other taxes and fees that are similar to those in most other states, including a county surtax, ad valorem property tax, documentary stamp tax, transfer tax and unemployment compensation tax, to name a few.

And now for the good news!

Florida businesses have:

- No corporate income tax on S corporations
- No corporate income tax on limited partnerships
- No corporate income taxes on flow-through limited liability corporations
- No corporate franchise tax on capital stock
- No property tax on business inventories
- No state-level property tax
- No intangible personal property tax

Florida residents have:

- No personal income tax
- No estate tax

- No generation-skipping transfer tax
- No income tax on trusts
- No intangible personal property tax
- No withholding tax on non-resident shareholder income

Florida also offers businesses various tax credits, including:

- Capital investment credit
- Community contribution tax credit
- Enterprise zone jobs and property credits
- New markets tax credit

The benefits of living and working in Florida can be best illustrated by comparing state and city taxes in Florida with the range of taxes levied in Connecticut, Pennsylvania, Massachusetts and New York (all in the Northeastern United States) on \$1m in income and an estate value of \$10m.

	Florida	Northeastern U.S.
State and Local Personal Income Tax	\$0	\$52,000 to \$105,000
Estate Tax	\$0	\$960,000 to \$1,499,000

Over the last few years, the federal government has significantly reduced the funds flowing to state government. Creating revenue for each state has also been severely impacted by the weak economic conditions. This has resulted in state governments attempting to replace the lost revenue with other sources, one of those being revenue that has left with the high income earners.

Many states currently are aggressively looking at the residency status of taxpayers who are no longer filing in the state or those who have changed their tax reporting to non-resident or part-year resident. States, in general, have a two-tier system for determining residency. The first is based on the number of days a person is physically located in the state. If it's more than half the year, the taxpayer will be taxed as a resident. The second test is whether the taxpayer is in the state for less than half the year but is considered to be "domiciled" in the state; if so they will then be taxed as a resident. Domicile is determined by facts

and circumstances and takes into account, among many other factors, the location of the taxpayer's personal residence, where those near and dear live, the school that the children go to, religious affiliations, the doctors used, the clubs the taxpayer belongs to, and various other factors. Ultimately, the "no tax" benefits of Florida require making Florida home.

Moving to Florida can have many benefits aside from the 70 degree Fahrenheit winter temperatures and beautiful beaches. Businesses benefit from access to abundant class A office space, with or without ocean views; easy access to private or commercial airports with direct flights to the Northeast; an educated workforce; and access to the Latin American and Caribbean markets.

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Families relocating to Florida are able to take advantage of the diverse cultures spanning the state, the excellent private and public schools and universities, and the assortment of suburban and waterfront homes.

When considering the economic benefits of relocating an entire business to the tax-free Florida environment, it is important to recognise that the people who have helped make the business a success will also be influenced by the decision to move, and their needs should be also addressed. Florida's lifestyle fortunately accommodates the requirements of both high-net-worth individuals and suburban families, and most people find a community and environment that fits their particular needs.

This is especially true for employees of hedge funds and private equity firms, businesses that generate revenue and income throughout the country or even internationally and are not affected by their location. Their employees will benefit enormously from the generally lower cost of living in Florida and the tax benefit accruing to them, creating additional disposable income. This benefit could



help persuade employees to relocate as well as create the opportunity to hire new talent.

There are numerous organisations in Florida that have the expertise and experience to facilitate the transition of businesses and their extended workforces to the "Sunshine State." All in all, the beneficial tax environment and appealing lifestyle coupled with the global nature of hedge funds and private equity make Florida a business destination of choice. ■