



Morgan Lewis

ADVANCED TOPICS IN

HEDGE FUND PRACTICES

CONFERENCE

MANAGER AND INVESTOR PERSPECTIVES

NEW YORK

June 10, 2025

Tax Updates

Speakers



Jennifer Breen
+1.202.739.5577
[jennifer.breen@
morganlewis.com](mailto:jennifer.breen@morganlewis.com)



Jason P. Traue
+1.617.951.8964
[jason.traue@
morganlewis.com](mailto:jason.traue@morganlewis.com)



Richard S. Zarin
+1.212.309.6879
[richard.zarin@
morganlewis.com](mailto:richard.zarin@morganlewis.com)

Morgan Lewis

Overview of Federal Tax Developments



The 2025 Tax Bill: What's in, What's Out – Provisions Funds Should Watch



The IRS: Guidance, Gaps, and Government Priorities



Litigation to Watch: SECA and Beyond



What's Next and Practical Takeaways

2025 Tax Bill

What's In, What's Out and Why It Matters

What's In – Headline Changes

- Expansion of business interest expense deduction
- SALT cap modifications
- Elimination of PTET tax benefit for investment professionals
- Amortization Limits on Sports Investments
- Modifications to IRA green energy credits, sunset on transferability
- Modifications to GILTI, FDII and BEAT
- Retaliation against “unfair foreign taxes”
- Disguised sales of partnership interests

What's Out – But Watched Closely

- Carried interest – No statutory change, but still politically exposed
- SECA – No fix; LP allocations remain under IRS and judicial scrutiny
- International Reporting (e.g. PFIC reporting) – No relief; complex disclosures remain in place

Strategic Takeaways and Considerations

What the Bill Signals

- Financing flexibility is back
- States matter again
- The IRS continues to watch partnerships
- Sports and energy tax benefits are tightening

What's Missing Is Just as Telling

- No fix for SECA, so anticipate litigation to continue
- Carried interest not addressed, for now?
- International reporting burdens persist, is there a regulatory fix?

Action Items

- Continue to monitor and minimize SECA risk
- Scrub partnership agreements for disguised sale exposure
- Check debt models for post-§ 163(j) flexibility
- If invested in areas where benefits are tightening, consider the impacts

The IRS: Guidance, Gaps and Government Priorities

- *Loper Bright* – a year later
- Impact of Executive Order 14219: “Ensuring Lawful Governance and Implementing the President’s ‘Department of Government Efficiency’ Deregulatory Initiative”
- Evolving Positions and Guidance
 - Partnership Basis Shifting Transactions of Interest
 - Digital Assets and Broker Reporting
- Future of Guidance?
 - Notices 2025-19 and 2025-26 Priority Guidance Plan



Current State of the IRS

Current Headcount and Leadership

- Senate Finance Committee approved Billy Long to serve as commissioner (14-13), sending nomination to full Senate for vote
- Impacts of administration's actions to reduce the size of the workforce – 11,433 IRS employees terminated or accepted the DRP as of May 2025
- 5,765 SBSE (23%)
- 1,733 LBI (25%)
- 3,623 Agents (31%)



Funding Cuts

- Administration's proposal to cut funding by 33% or to \$3.6 billion
- Appropriation at lowest since 2001, funding was \$3.51 billion
- House previously proposed to cut enforcement funding by \$2 billion (37%) in FY 2025

Enforcement Focus and What's Coming

IRS Enforcement Focus

- Global High Net Wealth Program
- Large Partnership Compliance Program
- Campaigns and Issues of Interest
- Shift in Audit Style due to headcount reductions
- AI Profiling and increased use of an upscaled AI function

Litigation to Watch: SECA and Beyond

- Current SECA controversies continue
- *YA Global*
- Continued IRS focus on partnership anti-abuse theories and ensuing litigation

SECA Campaign – Status

Current Pending Cases

- *Denham Capital Management LP v. Commissioner*, No. 9973-23
 - Notice of Appeal Filed April 7, 2025 – First Circuit
- *Sirius Solutions L.L.L.P v. Commissioner*, No. 11587-20
 - Currently before the Fifth Circuit
- *Soroban Capital Partners LP v. Commissioner*, Nos. 16217-22, 16218-22
 - Decision for the IRS, May 28, 2025, likely to appeal to Second Circuit
- *Point72 Asset Management, LP v. Commissioner*, No. 12752-23
 - Pending Summary Judgement Motions
- Several more filed recently – largely in appealable to the Second Circuit

Other Developments

- Many cases pending in Exam and Appeals
- Proposed regulatory guidance?

Managing SECA Campaign Risk: Operational Aspects to Consider – Lessons Learned From Litigation

Understand the capacity in which someone is acting and ensure that it is consistent with the operating agreement, bylaws, and other organizational documents. Don't conflate roles.

Know Your Hat



If a limited partner is also providing services, ensure their compensation is appropriate for the market. The IRS takes issue with a lack of, or below-market compensation.

Provide Market Compensation for Services



Ensure that the GP is receiving a distribution or guaranteed payment for the services it renders to the partnership.

Compensate the GP for Services Rendered



Practical Takeaways



Consider current environment and what may be coming



Be prepared to revise documents, disclosure and structure as rules evolve



Cross-border activity is in the crosshairs



Know the state of your recordkeeping and protect privilege