

May 15, 2008

Memorandum to Investment Management Clients

New House Ways and Means Bill Would Eliminate
Fee Deferrals for Managers of Offshore Investment Funds

On May 14, House Ways and Means Committee Chairman Charles Rangel (D-NY) introduced legislation (H.R. 6049), the Energy and Tax Extenders Act of 2008 (the "Bill"), which would provide a number of tax breaks including (i) a package of energy tax credits intended to encourage oil companies and others to invest in renewable energy technologies, (ii) the extension of the effective dates of a number of statutory provisions that had expired at the end of 2007, and (iii) additional tax relief for certain individuals through an expansion of the refundable child tax credit and a new standard deduction for property taxes. The lost tax revenues from these provisions would be offset, in part, by eliminating the ability of investment managers ("Managers") to defer the taxation of fees payable by offshore investment funds for services rendered after December 31, 2008. In the case of fees that have been deferred by Managers with respect to services they performed prior to 2009, the Bill provides that these deferred fees would generally be required to be included in a Manager's taxable income no later than 2017.

The Bill directs the Treasury Department to issue guidance within 120 days after the Bill's enactment which would provide a limited period of time during which a deferred compensation arrangement attributable to services performed by a Manager prior to 2009 may, without violating the requirements of section 409A of the Internal Revenue Code, be amended to conform the date of distribution to the date the amounts are required be included in the Manager's income. Similar guidance would be provided for amending certain "back-to-back" deferral arrangements maintained by a Manager with respect to its employees.

The Bill was approved today by the House Ways and Means Committee and is expected to be considered by the House of Representatives next week. We will keep you informed of the further developments regarding the status of the Bill.

If you have any questions regarding the Bill, please feel free to contact Peter Pront (212) 574-1221, Daniel Murphy (212) 574-1210 or James Cofer (212) 574-1688.

Seward & Kissel LLP