

**From:** Jeffrey Epstein <jeevacation@gmail.com>  
**To:** "Fenn, Patrick" <[REDACTED]>  
**Subject:** Re: trying to insure step up if not elimination,  
**Date:** Mon, 27 May 2013 01:45:58 +0000

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also it appears that as the corp tax rate goes down, so does the tra payments, therefore having a potential conflict? I think thats right.

On Sun, May 26, 2013 at 7:44 PM, Fenn, Patrick <[REDACTED]> wrote:

Hi Jeffrey.

The negative basis is in AMH (through AP Prof and BRH). A basis step up in AMH for the boys' contributed cash would require the cash to find its way to AMH. Lending that cash to AMH could provide more debt basis (assuming existing debt remains outstanding) but that would raise non-tax issues that would have to be vetted). Providing the cash as equity to AMH, which could be used to repay the existing loan, may be a better alternative, maybe in the form of a preferred that could be held in the manner you have suggested in the freeze partnership. Same non-tax vetting would be required.

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**From:** Jeffrey Epstein [mailto:[jeevacation@gmail.com](mailto:jeevacation@gmail.com)]  
**Sent:** Tuesday, May 21, 2013 07:34 AM  
**To:** Fenn, Patrick  
**Subject:** trying to insure step up if not elimination,

Liabilities with the boys. The basis step up uncertainty can be avoided by some structuring if a freeze partnership is created to keep the liabilities with the boys , by treating the entity as a partnership for income tax purposes, rather than a disregarded entity. To accomplish this, we would create a nondisregarded entity to be the initial partner, who will acquire the junior equity interest. i.e. an LLC

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important to note that the low basis leveraged property would be contributed in exchange for the senior preferred ownership interest. Different property, presumably unencumbered property or cash, should be contributed to the nondisregarded entity formed to hold the junior equity interest. The nondisregarded entity would, in turn, contribute this property to the partnership in exchange for the junior equity interest. This other property can be contributed either by the boys or by other entities. If the boys contribute it, they would receive, in exchange, an ownership interest in the nondisregarded entity. The boys could then gift or sell that interest to grantor trusts. All of the income tax items (except for the small percentage owned by others) would flow through to them either directly as the holder of the senior preferred interest, or indirectly from the nondisregarded junior equity interest holder through the grantor trusts as grantor. The separate existence of the junior equity interest holder

should be sufficient to treat the partnership as a freeze partnership with two partners for income tax purpose. One partner would be the grantor. By operation of the second tier rule for nonrecourse liabilities under Section 752, all of the liabilities of the contributed property at the time of contribution, would be allocated to the boys senior preferred interest. This interest would be included in their estates for estate tax purposes upon the thier death, which should result in a basis step-up for the entire negative capital under Section 1014.

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