



# Florida Fund Services

IN FOCUS 2021

 [hedge\*\*w\*\*ee\*\*k\*\*](#)  [institutional\*\*a\*\*ss\*\*e\*\*t\*\*m\*\*anager](#)  [private\*\*e\*\*quity\*\*w\*\*ire](#)  [property\*\*f\*\*unds\*\*w\*\*orld](#)

## **GROWTH OUTLOOK**

Sunshine state invests in supporting innovation

## **PANDEMIC RESHUFFLE**

Financial firms reassess location and business practices

## **TAX & REGULATION**

Funds need to be aware of changing policy

**Featuring** Kaufman | Rossin





# *Concerned about the future?*

Having the right  
advisors in your  
corner can make  
all the difference.  
Learn more at  
[kaufmanrossin.com](http://kaufmanrossin.com)

## **Contact Us**

Nick Tootle  
[ntootle@kaufmanrossin.com](mailto:ntootle@kaufmanrossin.com)

Raul Garcia  
[rgarcia@kaufmanrossin.com](mailto:rgarcia@kaufmanrossin.com)

[www.kaufmanrossin.com](http://www.kaufmanrossin.com)

**KAUFMAN** | ROSSIN





## INSIDE THIS ISSUE...

### 04 SHINING BRIGHTER IN LIGHT OF GLOBAL CHANGE

By A. Paris

### 08 TOP TAX AND REGULATORY CONSIDERATIONS FOR INVESTMENT FUNDS IN 2021 AND BEYOND

By Bao Nguyen, Nick Tootle, & Stephen Ng, Kaufman Rossin

### 11 DIRECTORY



**Published by:** Global Fund Media, 8 St James's Square, London SW1Y 4JU, UK

[www.etfexpress.com](http://www.etfexpress.com) | [www.hedgeweek.com](http://www.hedgeweek.com) | [www.institutionalassetmanager.co.uk](http://www.institutionalassetmanager.co.uk) | [privateequitywire.co.uk](http://privateequitywire.co.uk) | [propertyfundsworld.com](http://propertyfundsworld.com) | [wealthadviser.co](http://wealthadviser.co)

©Copyright 2021 Global Fund Media Ltd. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher.

**Investment Warning:** The information provided in this publication should not form the sole basis of any investment decision. No investment decision should be made in relation to any of the information provided other than on the advice of a professional financial advisor. Past performance is no guarantee of future results. The value and income derived from investments can go down as well as up.



# Shining brighter in light of global change

By A. Paris

From the appeal of no income tax, to the supportive business community and the weather and lifestyle it offers, Florida has continued on its upward trajectory as an attractive location for financial and technology firms.

This past year has caused many to re-assess a large portion of their business practices – business continuity plans and virtual infrastructure, cybersecurity arrangements and onboarding processes were all up for discussion. Office space and business location is another of these key aspects under the lens.

In light of this re-examination, Florida is increasingly growing host to numerous financial services firms, including hedge funds, banks and other managers, moving parts of their business to the jurisdiction. Attracted by the business-friendly environment, firms are encouraging employees to make the move

with the promise of no personal income tax and other lifestyle benefits.

“Florida is a very popular jurisdiction for hedge fund formation. Along with New York, Connecticut, California, and Texas, Florida ranks as one of the most popular hedge fund jurisdictions,” says Bart Mallon, co-founder of Cole-Frieman & Mallon.

Muhammad Akram, founder of the boutique CPA Firm, Akram & Associates, elaborates on the attraction of the jurisdiction: “Florida offers great incentives to alternative fund managers to launch a fund having no state income tax, wealthy retirees and attracting companies and business owners from expensive and high tax states.”

The founder of PBHFA.org, the Palm Beach Hedge Fund Association, David S. Goodboy, lists the key attractions Florida holds for hedge funds and alternative asset managers. These

are namely, “the zero state income tax, a rapidly expanding talent pool, exponential growth in the hedge fund & money management ecosystem, world class technical & office infrastructure, and of course great weather, restaurants, and lifestyle.”

The appeal of the sunshine state now glows even brighter in the wake of tax increases in New York. Legislation passed earlier in 2021 raised income tax rates on single filers with more than about USD1.1 million of income and joint filers reporting more than about USD2.2 million.

These changes mean top earners in New York City will be subject to the highest combined local tax rate in the country.

“Reasonable levels of financial regulations and laws are an area which attracts small emerging managers to Florida versus New York or California,” notes Akram.

“The local, regional, and state governments are extremely pro-business and supportive of the financial migration taking place,” Goodboy stresses.

Miami mayor Francis Suarez hit the headlines late last year after reaching out to offer assistance to Delian Asparouhov, a venture capitalist from Silicon Valley who was looking to re-locate to Florida from New York. The initial interaction over Twitter is said to have sparked a numerous conversations between Suarez and other venture capitalists, and tech and financial moguls considering a move.

“We are turning a moment into a movement,” Suarez is often quoted saying.

Goldman Sachs is one household name tipped to be relocating its business to Florida. The bank was said to be shifting part of its asset management business to West Palm Beach and according to reports, has been recently seeking volunteers to move. Real estate sources have said the firm is due to lease a floor and a half of the area's newest office tower.

### Supporting innovation

In addition to hedge fund managers, venture capitalists and banks, the fintech has been one of the key drivers of growth in Florida. A report by Pitchbook in partnership with the Knight Foundation and FIU outlines: “In 2020, 23 fintech deals made up 15 percent of the deal pie, up from 9 percent in 2019. Leaders were Miami's Marco Financial, developing a trade finance platform and raising USD26



“Florida offers great incentives to alternative fund managers to launch a fund having no state income tax, wealthy retirees and attracting companies and business owners from expensive and high tax states.”

Muhammad Akram, Akram & Associates

million, and Nymbus, a core banking software maker that raised USD12 million.”

This investment has been strongly supported by policy as the state embraced the notion of regulatory sandboxes to stimulate innovation and growth in the fintech space.

Andrea O'Sullivan Director of The Center for Technology and Innovation, The James Madison Institute, writes in a report: “Florida has been a leader in the advance of regulatory sandboxes, implementing a financial technology or ‘fintech’ sandbox in 2020, which [began] operations on January 1, 2021. The speed of Florida's embrace of regulatory sandboxes has been as cutting-edge as it was admirable, as the state adopted its own fintech licensing relief just four short years from the time that the United Kingdom first initiated the concept of a fintech sandbox under its Financial Conduct Authority.”

The Financial Technology Sandbox, which was signed into Florida law in June 2020,





**“** I am thrilled that applications are now being accepted for a fintech sandbox innovator license. This is just another step forward for Florida to attract high paying, technology-focused jobs. **”**

Jimmy Patronis, Florida Chief Financial Officer

enables financial technology innovators to “test new products and services within the consumer finance, payment instruments sellers, and money transmitter programmes. The supervised, flexible regulatory sandbox uses exceptions to specified general law and waivers of the corresponding rule requirements under defined conditions.”

On announcing that applications for the sandbox were open in January this year, Florida Chief Financial Officer Jimmy Patronis said: “I am thrilled that applications are now being accepted for a fintech sandbox innovator license. This is just another step forward for Florida to attract high paying, technology-focused jobs. Ensuring Florida remains a top destination for companies seeking opportunities to grow is one of my top priorities, and I look forward to the success of financial innovation here in the Sunshine State.”

Further, Commissioner Russell C. Weigel, III, added: “The Office of Financial Regulation is committed to encouraging the growth of financial innovation while protecting Floridians from financial criminals. Thanks to the efforts of Governor DeSantis and CFO Patronis, Florida is on the forefront of financial innovation, and this fintech sandbox sends a great signal to the financial services industry that Florida is open for business.”

Initiatives like the inaugural Wyncubator Competition also help support innovation in Florida. Sponsored by Goldman Properties, in collaboration with City of Mayor Suarez, Venture Miami, and On Deck, the event seeks to identify the most innovative and disruptive tech startup and award that startup the opportunity to plant roots and thrive in Miami’s bustling Wynwood neighbourhood.

The prize includes a one-year, rent-free lease of a newly furnished office (for up to ten employees) in the heart of Wynwood, five complimentary parking spaces in the Wynwood Garage, five annual memberships to the Wynwood Walls, and a full merit scholarship to one On Deck programme.

### Pandemic effect

The Covid-19 pandemic is a significant driver behind managers looking to relocate to Florida. In view of the transition to remote-working, many managers began re-thinking their work practices, including their office space needs and business location.

Akram comments: “The Covid-19 pandemic amplified the business and wealth migration to this sunbelt state due to remote working and flexibility offered to employees by US large Companies.”

In a piece entitled Back to the Future of the Office, Jefferies Capital Intelligence details how the pandemic has “allowed for the largest, unprompted, organisational behaviour experiment in history to take place.”

The firm notes: “One theme that began to emerge across the industry, and across the globe, was the idea of a ‘Great Migration’ from larger financial hubs to smaller cities, such

as moves from New York to Miami. This trend was top of mind for many business decision makers and translated into the headlines, with references to top market leaders.”

Jefferies outlines the key drivers for these moves, including tax-saving Implications, lower real estate costs for increased square footage, a heightened need for outdoor space and warmer climates. Smaller city-funded business incentive programmes, living expenses and lifestyle changes for employees and diversity of talent recruited from non-traditional metro centres are other characteristics pushing for managers and financial firms to re-think their office location.

### Investing in attraction

Steven Rosen, Senior Manager at Akram, stresses: “The state is investing in itself, which will not only attract new businesses, but also entice current businesses to stay. In order to retain its appeal, Florida needs to continue to be a tax friendly state and expand/grow the talent pool through education and incentives.”

The state has continued investing in enhancing its appeal. An example of this is the appointment of Melissa Krinzman. In February 2021, Krinzman was officially announced as the City of Miami’s first VC-in-Residence. This is a one-year assignment to support Mayor Suarez’s efforts to accelerate the growth of Miami’s tech community.

With the support of Knight Foundation, Krinzman will “work with growth-oriented founders, investors and community leaders to identify and execute on the lever points that will catapult them to success and strengthen Miami at large.”

Speaking at the 2021 South Florida Economic Summit, Danet Linares, executive vice chairman of Blanca Commercial Real Estate discussed the availability of jobs in the region: “Our unemployment fell to 8.2 percent from 12.6 percent from last September so all these companies coming in are creating good jobs and offering high salaries.” She says this is a clear sign that opportunities are abundant in the region, adding this will boost talent and investment within schools as well.

Within the same summit, Josh Schertzer, CTO of Enterprise Technology, Blackstone Group said: “The energy down here is picking up, specifically within the technology and financial ecosystem and there are opportunities here for everybody.

“There has been over a decade’s worth of work from local organisations which have been extremely supportive in guiding firms looking to extend or relocate their organisation to the Greater Miami area.”

Schertzer explained how he was pleasantly surprised at how willing others were to provide assistance: “The broader community and the tech ecosystem here is very open to helping each other build their business down here. Regardless of whether you’re a competitor or not, people are happy to lend a hand and make introductions.” ■





# Top tax and regulatory considerations for investment funds in 2021 and beyond

By Bao Nguyen, Nick Tootle and Stephen Ng

With a new administration in office, an evolving regulatory landscape, and tax changes potentially on the way, investment funds should be proactive about watching for any shifts in tax policy or compliance requirements that might impact future planning.

## Proposed tax changes

The following are a few of the most notable proposed tax changes under the current administration that could impact investment advisers and investors in the coming months and years:

- Increase in the top income tax rate to 39.6% from 37%.
- Increase in the long-term capital gains and qualified dividend tax rate to 39.6% for taxpayers with income over USD1 million.
- Several changes to itemised deductions:
  - Cap on itemised deductions for those with income over USD400,000.
  - Reinstatement of the Pease Limitation and reduction of a taxpayer's total allowable itemised deductions by 3% for every dollar of AGI over a certain threshold.
- The 12.4% Social Security tax, shared by employers and employees, would kick back in for wages over USD400,000 (it currently only applies to wages up to USD142,800).
- Estate and gift tax changes, including:

- Reduction of the exemption for estate and gift tax transfers from the current combined lifetime USD11.58 million exemption to around USD5 million in estate inheritance and USD1 million in lifetime gifts.
- Increase in the estate tax rate to 45% from 40%.

## Recent tax-related developments

The Treasury Department and the IRS recently issued final regulations for the treatment of carried interest. The final rules released January 7, 2021, clarify parts of 2017's Tax Cuts and Jobs Act (TCJA) to provide additional insight and taxpayer guidance. The carried interest rules could continue to evolve, so this is an important area for investment advisers and investors to watch.

For the 2021 tax year, investment funds need to comply with a new reporting requirement. In addition to filing a Schedule K-1 for each investor, investment funds will now be required to file Schedules K-2 and K-3.

## State and local tax considerations

Florida's lack of a state personal income tax continues to be one of the main draws for taxpayers who relocate to this state. However, many taxpayers are not fully aware of potential lingering tax ties they may still have to their former state. High-tax states like New York can be especially challenging to break ties with from a tax standpoint.

► 11



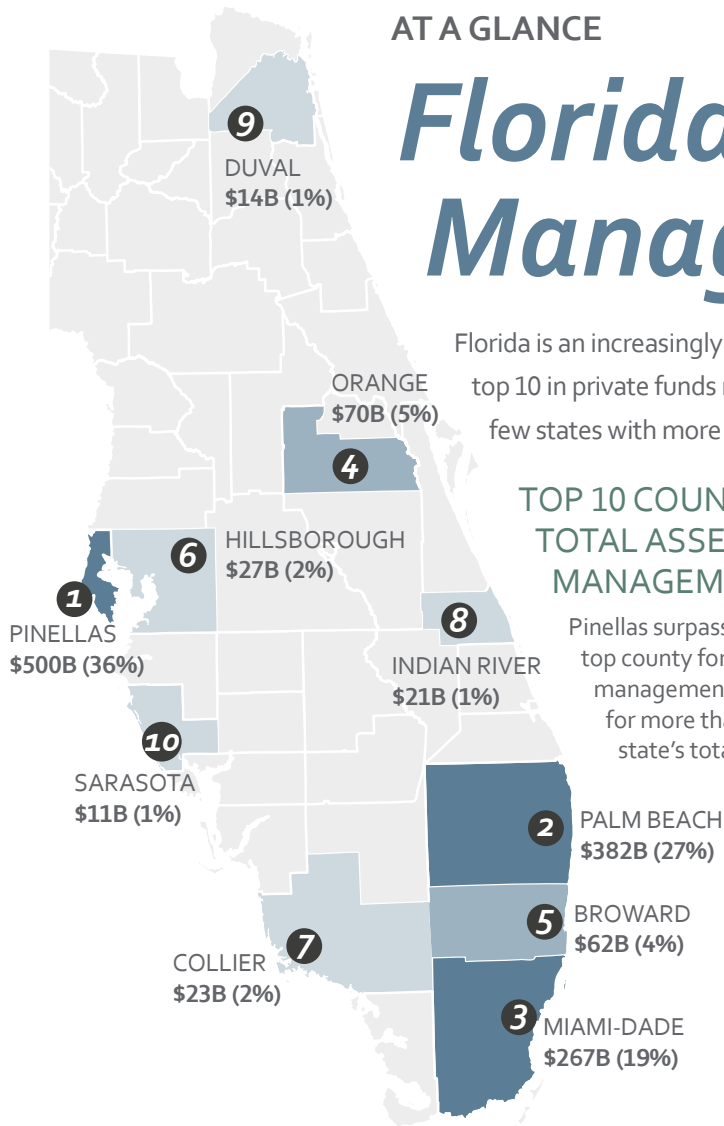
## AT A GLANCE

# Florida Assets Under Management

Florida is an increasingly hot spot for investment activity. The state ranks among the top 10 in private funds managed by SEC-registered adviser companies and is one of the few states with more than a trillion dollars in total assets under management (AUM).

## TOP 10 COUNTIES BY TOTAL ASSETS UNDER MANAGEMENT

Pinellas surpasses Palm Beach as the top county for total assets under management in Florida, accounting for more than one-third of the state's total AUM.

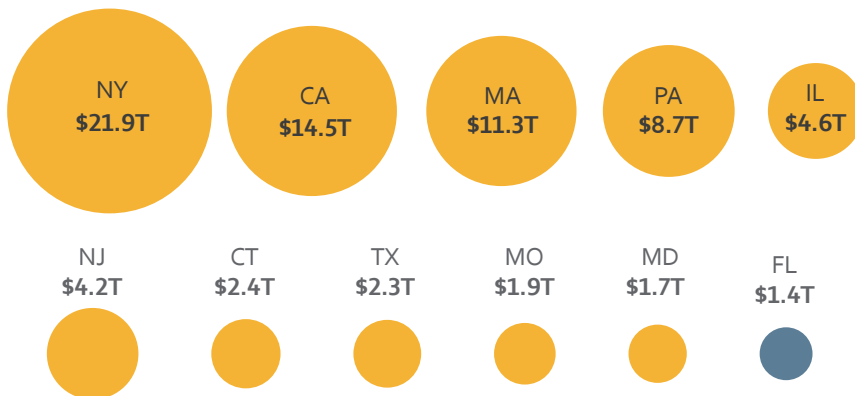


### MAP KEY



## TOP STATES BY TOTAL ASSETS UNDER MANAGEMENT

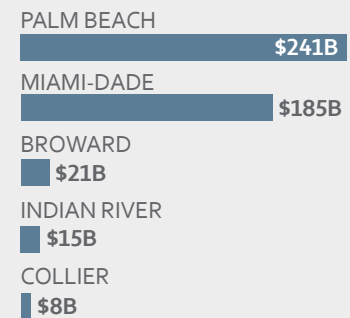
New York leads the nation in total assets under management, with California and Massachusetts rounding out the top three. With \$1.4 trillion total AUM, Florida falls just outside the top 10.



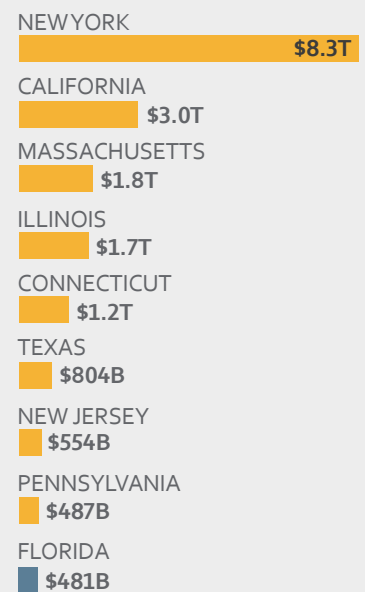
## PRIVATE FUNDS

Nearly 90% of the \$482 billion pooled assets under management in Florida are in Palm Beach and Miami-Dade counties.

### IN FLORIDA



### IN THE U.S.



Sources: Data is as of February 2021 from the U.S. Securities and Exchange Commission

Learn more at [kaufmanrossin.com](https://www.kaufmanrossin.com)

KAUFMAN | ROSSIN



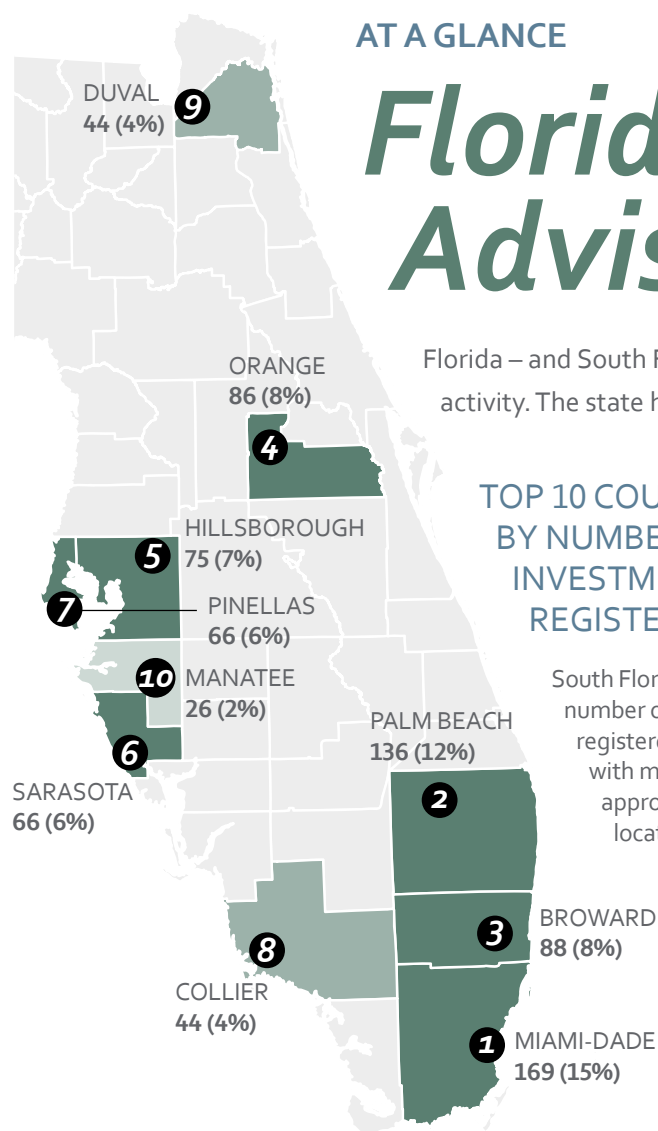
## AT A GLANCE

# Florida Investment Advisers

Florida – and South Florida in particular – is an increasingly hot spot for investment activity. The state has approximately 1,800 investment adviser companies.

## TOP 10 COUNTIES BY NUMBER OF NON-SEC INVESTMENT ADVISERS REGISTERED IN FLORIDA

South Florida leads the state in the number of non-SEC, state-registered investment advisers, with more than one-third of the approximately 1,100 advisers located in the tri-county area.



## MAP KEY

- 10 - 30
- 30 - 60
- MORE THAN 60

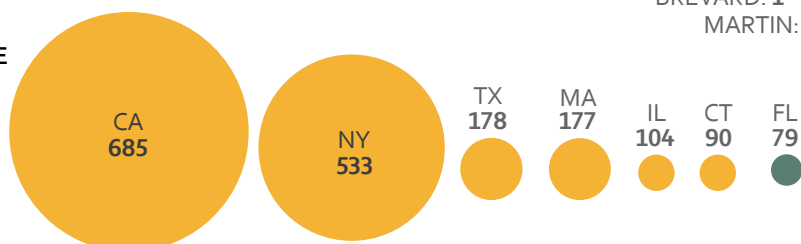
## TOP COUNTIES AND STATES BY NUMBER OF SEC-EXEMPT REPORTING ADVISERS

While California and New York have the highest concentration of SEC-exempt reporting advisers, Miami-Dade and Palm Beach have helped propel Florida to #7 in the nation.

## IN FLORIDA

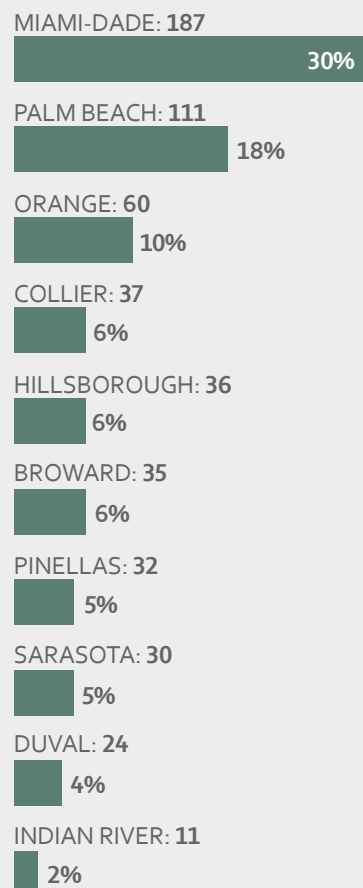


## IN THE U.S.



## SEC-REGISTERED INVESTMENT ADVISERS

More than half of Florida's 615 SEC-registered investment advisers are based in Miami-Dade, Broward or Palm Beach counties.



Sources: Data is as of February 2021 from the Florida Office of Financial Regulation, U.S. Securities and Exchange Commission and State Securities Regulators

Learn more at [kaufmanrossin.com](https://www.kaufmanrossin.com)

KAUFMAN | ROSSIN



- 8 ▶ Anyone considering a personal or business move to Florida should consult with a tax professional who specialises in state and local tax to help them with planning for the tax implications of such a move and avoiding any unwanted surprises.

### Regulatory considerations

The US Securities and Exchange Commission (SEC) is increasing focus on a few areas, including:

- **Investment Adviser Marketing Rule** – The SEC's adoption of amendments to the long-standing advertising rule, Rule 206(4)-1, now applies to private pooled funds and makes it possible for funds to expand their marketing, advertising and communications efforts to attract more investors. However, there are strict compliance requirements that firms need to follow to stay in compliance while they make the most of this rule.
- **Climate and ESG Task Force** – The SEC's Division of Enforcement recently announced a new task force that will focus on identifying misconduct related to environmental, social and governance strategies and products. The division's 2021 examination priorities also included a focus on ESG strategies and products, an area that is seeing growing interest among investors.
- **Information Security and Operational Resiliency** – Also included in the SEC's 2021 examination priorities is a focus on how firms are safeguarding customer data and managing operational risk related to employees working remotely and other pandemic-related changes.

### Going forward

On the regulatory front, investment advisers should speak with a compliance adviser about how recent SEC announcements and rule changes may impact their business, and how they can come out ahead. Investment advisers have an extended compliance period to comply with the SEC's new marketing rule – but that doesn't mean they should wait. There are real business benefits to adopting the rule now, including gaining a competitive advantage.

On the tax front, there has been some talk in the media about whether any tax changes, including the proposed carried interest tax increase, could be enacted retroactively to January 1, 2021. While it thus far seems more likely that

any proposed tax code changes would not go into effect until tax year 2022 (or beyond), it's not too early for investment advisers to start speaking with a tax professional about how their investment fund may be affected in the future and what they can do to minimise tax liability. ■

**Bao Nguyen, CAMS, CFE, CRCP**  
Principal, Kaufman Rossin



Bao Nguyen is risk advisory services principal at Kaufman Rossin, one of the Top 100 US CPA and advisory firms. He specialises in recognising and assessing compliance risks for broker-dealers, investment advisers and private funds. He provides compliance solutions, like annual compliance programme reviews, anti-money laundering independent testing, supervisory control risk assessments, fraud investigations and customised compliance consultancy services. Before joining the firm, Bao was chief compliance officer for a broker-dealer, and a lead examiner with FINRA.

**Nick P. Tootle, CPA**  
Principal, Kaufman Rossin



Nick Tootle leads assurance and tax engagements, advising broker-dealers, investment advisers, hedge funds, private equity funds, and real estate funds. In the 2000s, Nick served as chief financial officer for a NASDAQ-listed global pharmaceutical development services company. Nick was elected to the global board of the Hedge Fund Association and also serves on the board of The Education Fund. He is a member of University of Miami's Citizens Board, the Miami Finance Forum, and the Financial Markets Association.

**Stephen Ng, CPA**  
Associate Principal, Kaufman Rossin



Stephen Ng specialises in the taxation of financial products and derivatives, as well as impacts on individual taxes. He guides clients through tax issues affecting hedge funds, private equity investments and funds of funds. Stephen conducts tax analyses of fund structuring, reviews private placement memorandums for tax compliance and tax minimisation, and prepares Schedule K-1 reporting for investors, among other services. Before joining Kaufman Rossin in 2012, Stephen was a senior tax manager in the financial services tax group of a regional accounting firm. He also worked several years at Ernst & Young, where he provided tax services to hedge fund clients with various trading strategies and financial products.

**KAUFMAN | ROSSIN**

#### KAUFMAN ROSSIN

Kaufman Rossin is one of the Top 100 CPA and Advisory firms in the US. For nearly 60 years, the firm has provided professional services to businesses and their leaders, from inception to succession. Our rich heritage is grounded in integrity, people-first culture and technical excellence. Kaufman Rossin's dedicated financial services team provides audit, tax and consulting services to hedge funds, private equity firms, investment advisers and broker-dealers. Affiliated entity Kaufman Rossin Alternative Investment Services, LLC, is a full service fund administration provider. We've been working with funds for decades; the investment industry is one of our top practice specialties.

[www.kaufmanrossin.com](http://www.kaufmanrossin.com)

Contact: [info@kaufmanrossin.com](mailto:info@kaufmanrossin.com) | +1 305 858 5600