



780 Third Avenue
New York, NY 10017

**TWENTY-FIRST
SECURITIES
CORPORATION**

Phone: 212-418-6000
Fax: 212-418-6038
www.twenty-first.com

MLPs Made Easy

How would you like a simple way to “own” MLPs without the hassle of dealing with K-1s? What if all gains and losses were taxed as 60% long term and 40% short term instead of having to deal with distribution recapture at ordinary income rates?

It's as simple as buying exchange traded options on MLPs instead of buying the MLPs themselves.

Options on individual equities are taxed normally. All exchange traded “non-equity” options are taxed as IRC Section 1256 contracts; IRC 1256(b)(1)(c). These option contracts are taxed like futures contracts; they are marked-to-market at every year end.

As a trade-off for having to mark-to-market, the government reached a compromise with those affected by agreeing that any gains or losses from the mark-to-market will be taxed as if 60% of the profits were held long term and 40% were held short term. This is the case whether you own the option or wrote the option; nor does it matter if you hold the options for one day or three years. Utilizing the top rates of 23.8% for long term and 40.8% for short term, we calculate that all profits will be taxed at 30.60%; AND you no longer receive or have to deal with K-1s.

These exchange traded options are guaranteed by the Options Clearing Corporation that is rated equally to the debt issued by the US Government. There is no single entity counterparty risk. Oddly, OTC options not only carry counterparty risk they also do not enjoy this 60/40 tax break.

Invest in MLPs

Best Way to Own MLPs

Descriptor	Direct Investment in MLP	MLP ETF or Closed End Fund <i>(More than 25% MLPs)</i>	MLP ETN	Option on MLP
K-1 Issued	Yes	No	No	No
Counterparty Risk	No	No	Yes	No
Corporate Level of Tax	No	Yes	No	No
Income Deferral	Yes	No	No	Mark to Market
After Tax Retained of \$1 of Distribution	\$0.564	\$0.495	\$0.564	\$0.684

By using exchange traded FLEX options, we can construct “synthetic” ownership in the MLPs that will have no wasted time premium. As an example, we can buy deep in the money calls on an MLP that would act just like the MLP would. Although the investor will no longer be receiving distributions from the MLP, they will garner the economics of the distributions in the pricing of the MLP options.

We invite further enquiry.

[Other ways to own MLPs](#)

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