

Message

From: Heine, Bruce [Bruce.Heine@magellanlp.com]
Sent: 11/21/2017 8:55:53 PM
To: Wagner, Kenneth [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=048236ab99bc4d5ea16c139b1b67719c-Wagner, Ken]
Subject: Master Limited Partnerships
Attachments: Senate.HouseComparison.FINAL.pdf; Effect of the Modified Chairman's Mark.11162017.pdf; MLP.CorpConversion.pdf

Importance: High

Ken...thanks for returning my call earlier this afternoon. As mentioned, the Senate tax reform bill treats MLPs unfairly and we have serious concerns with the potential outcome if the current version of the Senate bill becomes law. The attachments above and backgrounder below provide more detail. I would appreciate it if you could pass this to your boss to see if he would contact Senator Cornyn to highlight the need to support the House version of the tax reform bill and the important role MLPs play in our nation's energy security.

Thanks

Bruce Heine
Magellan Midstream
Tulsa

Ex. 6

c

BACKGROUND

MLPs are publicly traded partnerships governed by Internal Revenue Code Section 7704, specifically Section 7704(c). Thirty years ago during the last major tax reform initiative, Congress – **with the active involvement of Senator Wallop** -- created the provision under which MLPs operate today. As narrowly defined by Congress in 1987, the MLP provision enables qualifying businesses to organize as pass-through tax entities and to raise capital from a broad base of investors by utilizing public equity markets. MLPs by definition are not closely-held partnerships.

Most of the assets held by MLPs are domestic. MLPs have successfully operated as Congress envisioned 30 years ago and now are an integral part of the way our nation raises capital to build critical infrastructure for domestic energy supplies, particularly natural gas, natural gas liquids (NGLs), crude oil, refined products and renewable fuels including ethanol and biodiesel.

More than 80% of all MLPs (and approximately 75% of the total MLP market capitalization of nearly \$400 billion) are involved in energy and natural resource related businesses, with the largest number of MLPs operating in the midstream sector. This sector has invested roughly \$30 billion each year for the past ten years for the development of an independent and state-of-the-art energy infrastructure platform for the United States. Approximately 75% of these investments have been focused on core infrastructure, including natural gas and liquids pipelines, storage facilities, processing plants, and related midstream assets. Critically, the infrastructure assets owned and developed by MLPs serve as the essential link between the production of natural resources and their delivery to consuming markets, without which the U.S. energy industry could not function.

MLPs provide individuals with a vehicle to invest and participate directly in the development and growth of U.S. energy infrastructure, natural resources, and real estate. Generally, the majority of retail MLP investors (either directly or through funds) are individuals over the age of 50. These MLP investments are particularly attractive investors reliant on a source of fixed income, such as seniors, because they generally distribute most of their operating cash flow each quarter, providing a steady, reliable income stream. The combination of investor demand for income-paying securities

and their pass-through status provides MLPs with a low cost of capital, ultimately supporting a lower cost of energy delivered to consumers.

The MLP structure has proven and continues to be a successful means of:

- Raising low cost capital through the public markets;
- Providing reliable returns to investors; and
- Building and maintaining critical infrastructure necessary to ensuring America's energy security and economic prosperity

PROBLEMS WITH CURRENT SENATE FINANCE COMMITTEE BILL

The current U.S. Senate Finance Committee-passed version of tax reform breaks from the policy positions of the Unified Framework for Tax Reform announced by leadership in Congress and the Trump Administration earlier this year. Further, it also varies widely from a House-passed version with regard to pass-throughs. **The Committee's approach seriously jeopardizes the MLP sector just as INGAA estimates that the country needs an estimated \$550 billion in energy infrastructure investments in the next 10 years.**

Under the Senate Bill, C-corps and individual shareholders pay a combined rate on taxable income of 36% plus the Net Investment Income Tax (NIIT – aka Obamacare Investment Tax) – not considering the benefit of the additional 12.5% dividends paid deduction (an 11.5% benefit vs. current law) -- which is permanent. MLPs and individual owners pay a combined rate on taxable income of 38.5 % (because individual owners get no benefit from the 17.4% deduction as a result of the wage limitation on the deduction) plus the 3.8% NIIT. What's more, the exception from the wage limitation for incomes under \$500,000 is irrelevant when talking about the effect of tax rates on MLP equity prices, since loss of investors in the higher income brackets will drive down unit prices for all. This results in MLPs and their individual owners being taxed at a higher rate than C-corps and their shareholders (and, after taking into account the non-deductibility of state income taxes, at a higher rate than under current law).

CONCLUSION

The pass-through tax rate differential under current law for MLPs, relative to corporations, reduces their cost of capital. This drives investment in energy infrastructure that Congress has long held to be economically and strategically important. The Senate Finance Committee bill would make it more expensive for MLPs to raise capital, risking reduced investment in domestic energy infrastructure. Reduced investment will compromise energy security and force consumers to pay higher prices, which ultimately could undermine the economic growth Congress seeks to stimulate with this Bill.