



# NATIONAL ASSOCIATION OF PUBLICLY TRADED PARTNERSHIPS



## MLP Basics for Investors

### What are MLPs?

MLPs (master limited partnerships) are publicly traded partnerships: limited partnerships which are traded on stock exchanges. A share in an MLP is called a “unit,” and owning MLP units makes you a limited partner. Sometimes an MLP is technically not a partnership but a publicly traded limited liability company (LLC) which has chosen partnership taxation. There are some differences between the two, but for tax purposes they are the same.

### Why should I consider investing in MLPs?

In a time of insecurity in the stock markets, securities paying income can help mitigate the effect of fluctuating stock prices. MLPs are an income-oriented investment: their organizational mandate is to pay out all earnings not needed for current operations and maintenance of capital assets to their unitholders in the form of quarterly cash distributions. Many MLPs are also growth-oriented, striving to increase their distributions as often as is possible and prudent. In addition, MLPs are a tax-advantaged investment. As explained below, investors pay tax only their proportionate share of the MLP’s income, which is greatly reduced by their share of deductions; distributions are tax-deferred. Finally most MLPs are in essential industries, providing energy and energy infrastructure, for which demand is likely to continue and increase.

### What kinds of companies operate as MLPs?

Due to the requirements of the tax code, the great majority of MLPs—about 80 percent by number, representing about 90 percent of MLP market capital—are in energy-related businesses. The largest number of MLPs is in the midstream sector which gathers, processes, transports, and stores oil, natural gas, and refined petroleum products. There are also MLPs engaged in the production of oil and natural gas, distribution of propane and other refined products, coal leasing and mining, and marine transportation of petroleum products. In addition, there are some publicly traded partnerships in real estate, the investment industry, and a various other businesses.

### How are MLP units different from corporate stock?

The big difference is in how MLPs and their investors are taxed. Unlike corporations, MLPs and other partnerships are not considered as separate entities for tax purposes. Rather, MLPs and other partnerships are “pass-through” entities. No tax is paid at the partnership level; partnership income passes through and is taxed only at one level - that of the individual partner. Since deductions such as depreciation and depletion are also passed through to individual partners, taxable income is often quite low. Most MLPs make quarterly distributions to their partners that will significantly exceed any tax owed.

### What does that mean for MLP investors?

Since the MLPs itself does not pay tax, it is able to pass along more of its earnings to its investors than a corporation. It does this in the form of quarterly cash distributions. From a tax standpoint these distributions are treated much more favorably than corporate dividends. Rather than taxable investment income, they are considered to be a return of capital and reduce the partner’s basis in the partnership units. The partner will not be taxed on distributions until the MLP units are sold and tax paid on the gain, including distributions, or when the basis reaches zero.

### **What happen when units are sold?**

When the units are sold, the difference between the sales price and the adjusted basis equals the taxable gain (or loss). Some of the tax on the capital gain from selling the interest will be taxed at the capital gains rate. That portion of the gain that results from a downward adjustment of the basis after allocation of depreciation or other deductions will be taxed at the ordinary income rate.

### **What is a K-1? Will it delay my tax filing?**

The K-1 form is the document an MLP investor will receive during tax season showing the investor's share of each item of partnership income, gain, and loss, deductions, and credits. The K-1 provides the information necessary for an investor's tax return. MLP investors receive this form instead of the 1099. While K-1's cannot be made available in January as is done with the 1099, MLPs are work hard to provide the K-1 on a timely basis. Usually an investor can download the K-1 from a company website in plenty of time to meet tax filing deadlines.

### **Can I hold MLPs in my IRA or 401(k)?**

Yes, but MLPs may not represent the best investment for a retirement plan. First, since a retirement plan is tax-exempt anyway, the tax benefits of an MLP would have no impact. Secondly, a retirement fund (or other tax-exempt entity earning income from an outside business) is subject to the "unrelated business income tax (UBIT)" after the first \$1,000 of net income. Since an MLP is a pass-through entity the fund would be considered to be "earning" this sort of income. Unless there is certainty that an MLP's income will be less than \$1,000 each year, it should probably not be held in a retirement plan.

### **How can I or my retirement plan invest in MLPs without the tax hassle?**

There are several closed-end mutual funds and a few open-end funds that concentrate on MLPs. If you invest through one of these funds, they will deal with the tax issues of being a limited partner and pass the income they receive from the MLPs on to you or your retirement account as a dividend, some of which will be treated as return of capital. You will receive a 1099 form instead of a K-1. The downside is that you will not get the full tax benefits of direct investment in an MLP, and some of the income will be retained by the fund for fees and expenses.

### **What are some of the companies that operate as MLPs?**

The companies below are all MLPs belonging to the National Association of Publicly Traded Partnerships.

Alliance Resource Partners, L.P.	K-Sea Transportation Partners L.P.
Alliance Holdings GP, L.P.	Legacy Reserves LP
Atlas Pipeline Partners, L.P.	Linn Energy LLC
Atlas Pipeline Holdings, L.P.	Magellan Midstream Partners, L.P.
Blueknight Energy Partners, L.P.	MarkWest Energy Partners, L.P.
Boardwalk Pipeline Partners, LP	Martin Midstream Partners L.P.
BreitBurn Energy Partners L.P.	Natural Resource Partners L.P.
Brookfield Infrastructure Partners L.P.	Navios Maritime Partners L.P.
Buckeye Partners, L.P.	Niska Gas Storage Partners LLC
Calumet Specialty Products Partners, L.P.	NuStar Energy L.P.
Capital Product Partners L.P.	NuStar GP Holdings, LLC
Cheniere Energy Partners, L.P.	ONEOK Partners, L.P.
Chesapeake Midstream Partners, L.P.	Oxford Resource Partners, LP
Constellation Energy Partners LLC	PAA Natural Gas Storage, L.P.
Copano Energy, L.L.C.	Penn Virginia Resource Partners, L.P.
	Penn Virginia GP Holdings, L.P.

Crestwood Midstream Partners LP  
Crosstex Energy, L.P.  
DCP Midstream Partners, LP  
Dorchester Minerals, L.P.  
Duncan Energy Partners L.P.  
Eagle Rock Energy Partners, L.P.  
El Paso Pipeline Partners, L.P.  
Enbridge Energy Partners, L.P.  
Encore Energy Partners LP  
Enterprise Products Partners L.P.  
EV Energy Partners, L.P.  
Exterran Partners, L.P.  
Ferrellgas Partners, L.P.  
Genesis Energy, L.P.  
Global Partners LP  
Holly Energy Partners, L.P.  
Inergy, L.P.  
Kinder Morgan Energy Partners, L.P.

Plains All American Pipeline, L.P.  
QR Energy, LP  
Regency Energy Partners LP  
Rhino Resource Partners LP  
Spectra Energy Partners, LP  
StoneMor Partners L.P.  
Suburban Propane Partners, L.P.  
Sunoco Logistics Partners L.P.  
Targa Resources Partners LP  
TC PipeLines, LP  
Teekay LNG Partners L.P.  
Teekay Offshore Partners L.P.  
TransMontaigne Partners L.P.  
Vanguard Natural Resources, LLC  
Western Gas Partners, LP  
Williams Partners L.P.  
WP Carey & Co., LLC