MLP Structure: Attractive After-Tax Yields

- Capital gains and ordinary losses are passed through to an MLP owner and beneficially impact that owner's income at different tax rates
- The appreciated value of sold timber is reported as income that is taxed at capital gain rates; depending on the owner's tax situation, that capital gain rate will range from 0% to 20%
- Remainder of business activity generally reported as an ordinary loss, which can offset other forms of ordinary income (like W-2 wages) and result in an overall lower effective tax rate to a unitholder
- REITs do not enjoy the rate arbitrage provided by POPE via the passthrough of ordinary losses; instead REITs are only taxed on the characterization of their dividends

		Tax Impact to Individual of POPE Units		Proforma Tax Impact as a REIT		
Pope Resources K-1 (per unit)[1]	**2018 Tax Year**	**Top Tax Rate[2]**	**Tax (Cost)/ Benefit**	**Top Tax Rate**	**Tax (Cost)/ Benefit**	**MLP Tax Savings Versus a REIT**
Ordinary loss	($6.32)	37.0%	$2.34			
Capital gain-timber	7.88	20.0%	(1.58)			
Capital gain-land	0.96	20.0%	(0.19)			
Interest income	0.03	37.0%	(0.01)			
Total	$2.55		$0.56	20.0%	($0.51)	$1.07

[1]Income components provided above are at an aggregate level. Each unitholder's allocation of income will be different depending on the date and price at which POPE units were purchased.

[2]Rates in this column reflect Federal income tax rates presented at the highest ordinary (37%) and long-term capital gain (20%) rates. Certain individuals may be subject to an additional 3.8% Net Investment Income Tax, which is not shown above. Taxpayers should seek independent advice from a tax professional, as these materials are provided for general informational purposes only.