LEGACY FARMLAND FUND

721 EXCHANGE FOR FARMLAND

SOWER
LEGACY FARMLAND FUND

402.502.9252 legacyfarmlandfund.com

721 EXCHANGE

For Farmland

721 Exchanges were created by the IRS decades ago allowing transacting real estate owners to defer capital gains tax and diversify their investments.

Widely used for commercial real estate, Sower's Legacy Farmland Fund ensures that farmland owners now too have access to this simple and powerful solution allowing them to fully benefit from their farmland asset.

Exchange Farmland For Partnership Units in the Legacy Farmland Fund.

- **Defer Capital Gains Tax**
- **Enjoy Flexibility to Retain, Gift or Sell Fund Units**
- **Receive Passive Income**
- **Protect and Create Value Through Asset Diversity**
- **Retain Farming, Recreation and Buy Back Rights**
- **Keep Families, Farms and Legacies Intact**

SOWER
LEGACY FARMLAND FUND

SOWER LEGACY FARMLAND FUND

SOWER BACKGROUND

Who We Are

The Sower Investment Family | **Solid Financial Management**

SOWER

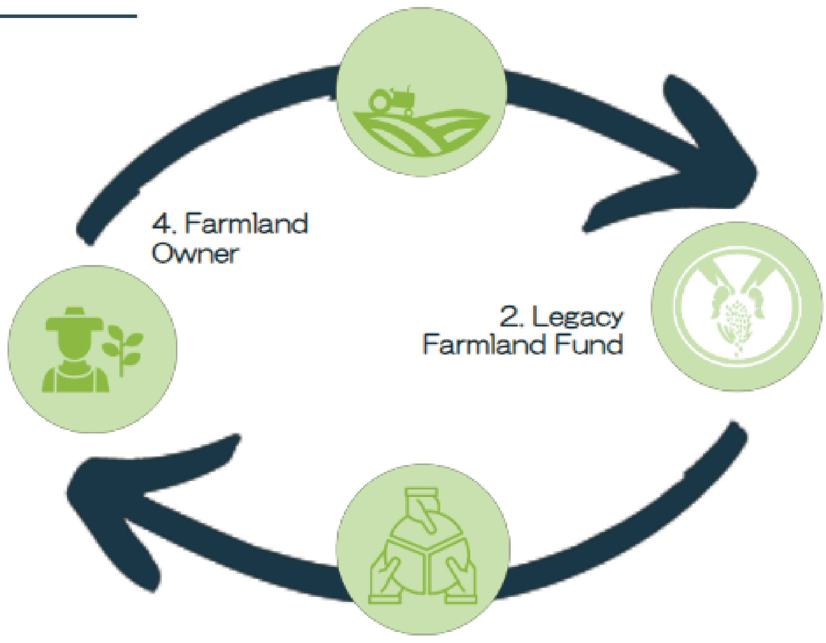
Sower Investment Partners is a farmland and commercial real estate investment firm sponsoring and investing in a family of investment funds, syndications and private placements.

$350MM Assets Under Management	Sponsors Sower Farmland Fund – a cash equity farmland investment fund Legacy Farmland Fund – a 721 Exchange Farmland investment fund	50 years of combined farm acquisition experience

HOW IT WORKS

A 721 Exchange

- Named after Section 721 of the U.S. Tax code
- 26 U.S. Code § 721
  – Nonrecognition of gain or loss on contribution. No gain or loss shall be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.



- Farmland owners transfer their farm to a partnership, the Legacy Farmland Fund
- This transfer results in a 721 exchange of the farm for shares that are tax-deferred
- The farmland owner transitions from active farm ownership to an owner of passive financial shares that represent all assets in the fund

SOWER
LEGACY FARMLAND FUND

PROMOTING LEGACY'S 721 EXCHANGE

Brokers & Managers

Farm Sales

Drive Additional Farmland Sales

- Promote 721 exchange option to existing and prospective clients as an alternative to a traditional sale
- A 721 exchange may offer more value than a traditional sale

Grow Acres

Preserve and Grow Acres Under Management

- Secure your organization as the designated farm manager after the 721 exchange
- Ensure the farm under management is not lost after a traditional sale

Earn Compensation

Another avenue to earn compensation

- Earn commissions just as a traditional sale
- Earn farm management fees on the land after the exchange

402.502.9252 legacyfarmlandfund.com

SOWER LEGACY FARMLAND FUND

721 EXCHANGE VS. TRADITIONAL SALE

Traditional Sale of Property with 50% FMV Tax Basis

Gross Sale Proceeds	$1,750,000
Total Seller Expenses	($74,000)
Capital Gain Tax Payment Due	($209,000)
Net Proceeds from Sale	**$1,467,000**
Discount to Exchange Value	**87.80%**

VS.

721 Exchange of Property

Total Property Value	$1,750,000
Total Est Exchange Expenses	($74,000)
Est Net Exchange Amount	**$1,676,000**

Fund Units Issued

Net Exchange Amount	$1,676,000
NAV/Unit at Exchange	$1,000
Legacy Farmland Fund Units Issued:	**1,676**

SOWER
LEGACY FARMLAND FUND

SOUND FINANCIAL PLANNING

Financial Planning for Farmland Owners

A 721 Exchange is a retirement, succession, estate planning & legacy farmland transition solution.

DEFERRING CAPITAL GAINS

INCOME OPPORTUNITY

FLEXIBILITY

ESTATE PLANNING

- Farmland owner receives passive financial returns while capital gains tax are deferred on the exchange
- Units yield quarterly dividends and appreciation
- Converts farmland into easily divisible membership units – can be held, divided, gifted or sold
- Simplifies estate planning for owners' children, heirs and beneficiaries

SOWER
LEGACY FARMLAND FUND

MAINTAINING A LEGACY

Preserving the Farm Legacy

Prohibition of Selling

- The Fund cannot sell the land without farmland owner's permission
- Confirms alignment and mission for long term Fund stewardship

Farm Ties

- Held in entity named after family
- Annual Fund Financial reporting and farm summary report

First Right to Lease

- Farmland owner can designate a tenant to be the first right of lease

Special Usage Rights

- Family may continue to have access to the land for hunting and recreational activities

First Right of Repurchase

- Farmland owner can designate an individual to receive the first right to repurchase the land from the Fund in the future

SOWER
LEGACY FARMLAND FUND

CONTACT LEGACY

Fund Contacts

Eric Mueller

Emueller@sower.com

Ethan Branscum

Ebranscum@sower.com

920 S. 107th Ave. Ste 250 Omaha, NE 68114

402.502.9252 | legacyfarmlandfund.com

Visit Our Website:

Join Our Newsletter:

Contact Us:

721 EXCHANGE SCENARIOS

SOWER LEGACY FARMLAND FUND

1. CORPORATE OWNER - Property is owned by a corporation that is owned by multiple shareholders, but only some of them want to exchange their property.

a. If the property has little or no debt, the non-contributors may be bought out by the contributors. To facilitate this transaction, the fund would loan the contributors the money required to acquire the non-contributors' interest in the company (to secure this loan, the contributors would pledge their units in the fund). This loan would remain in place until the contributors fully repaid the note.Until then, it would accrue interest, which would be paid by the contributors' quarterly distributions. This scenario will typically only work if the non-contributors' interest makes up less than 25% of the total value of the property and there is little to no existing debt.

b. An alternative would be to split up the corporation through a D Reorganization. This will typically only work if the land has less than 25% debt to value and it complies with Section 355(b) of the Internal Revenue Code. In this scenario, the land would be physically split so that the value of each parcel is proportionate to the value of each shareholder group's interest: those that want to contribute their land to the fund (the A Group) and those that don't (the B Group). The corporation then contributes the A Group land to a new wholly owned subsidiary (A Co.).The corporation contributes the B Group land to a separate wholly owned subsidiary (B Co.). Now the corporation owns two subsidiaries: one that owns the fund units and one that owns land. If there was debt on the whole of the land prior to the split, new separate loans will be required. The corporation then engages in a D Reorganization and distributes A Co. to the A Group and B Co. to the B Group. Later, A Co. contributes the land to the fund. If the property is secured by a mortgage that is not assignable, the fund would loan the contributors the money required to pay off the existing debt (to secure this loan, the contributors would pledge their units in the fund). This loan would remain in place until the contributors fully repaid the note.Until then, the note would accrue interest, which would be paid by the contributors' quarterly distributions. Importantly, to avoid recognizing a gain on the distribution of A Co. and B Co. to the shareholders, the transaction must comply with Section 355(b) of the code, which requires that the distributing and controlled corporations be engaged, immediately after the distribution, in the active conduct of a trade or business that has been actively conducted through the 5-year period ending on the date of distribution. If the corporation has been merely cash renting the farm during this period, it will probably not comply with this requirement and the shareholders will recognize a gain. Whether such a transaction can be done on a tax deferred basis requires careful analysis and is fact specific. Please consult with your tax advisor before proceeding.

721 EXCHANGE SCENARIOS

SOWER LEGACY FARMLAND FUND

2. CORPORATE OWNER - Property is owned by a C-Corporation and all shareholders want to exchange their property without recognizing a taxable gain.

a. The C-Corporation can contribute the property to the fund in exchange for units. Barring any ownership restrictions, the C-Corporation can then elect to convert to an S-Corporation and avoid double taxation.To avoid the built-in gains tax, the S-Corporation shareholders should avoid selling their units in the fund for the next five years after conversion. This scenario will typically only work if the land has less than 25% debt to value. Whether such a transaction can be done on a tax deferred basis requires careful analysis and is fact specific. Please consult with your tax advisor before proceeding.

3. PARTNERSHIP/LLC OWNER - Property is owned by an LLC taxed as a partnership or partnership that is owned by multiple parties, but only some of them want to exchange their property.

a. If the property has little or no debt, the non-contributors may be bought out by the contributors. To facilitate this transaction, the fund would loan the contributors the money required to acquire the non-contributors' interest in the company (to secure this loan, the contributors would pledge their units in the fund). This loan would remain in place until the contributors fully repaid the note. Until then, it would accrue interest, which would be paid with the contributors' quarterly distributions. This scenario will typically only work if the non-contributors' interest makes up less than 25% of the total value of the property and there is little to no existing debt.

b. An alternative would be to physically split the land so that the value of each parcel is proportionate to the value of each partner/member group's interest: those that want to contribute their land to the fund (the A Group) and those that don't (the B Group) (note that this will typically only work if the land has less than 25% debt to value). Once the land is split the company will contribute the A Group land into a new wholly owned, disregarded LLC (A Co.) and will contribute the B Group land into a separate wholly owned disregarded LLC (B Co.) Now the company owns two subsidiaries: one that owns the fund units and one that owns land. If there was debt on the whole of the land prior to the split, new separate loans will be required. The company then distributes A Co. to the A Group and B Co. to the B Group.Later, A Co. contributes the land to the fund.

3. PARTNERSHIP/LLC OWNER - Property is owned by an LLC taxed as a partnership or partnership that is owned by multiple parties, but only some of them want to exchange their property. CONTINUED

If the property is secured by a mortgage that is not assignable, the fund would loan the contributors the money required to pay off the existing debt (to secure this loan, the contributors would pledge their units in the fund). This loan would remain in place until the contributors fully repaid the note. Until then, the note would accrue interest, which would be paid by the contributors' quarterly distributions. Whether such a transaction can be done on a tax deferred basis requires careful analysis and is fact specific. Please consult with your tax advisor before proceeding.
i. Note: if the A Group wishes to own their units individually, A Co. may be able to distribute the assets proportionally to the A Group owners.

4. PARTNERSHIP/LLC OWNER - Property is owned by an LLC or Partnership and all members or partners want to exchange their property without recognizing a taxable gain.

a. The company can contribute the property to the fund in exchange for units. This scenario will typically only work if the land has less than 25% debt to value. If the property is secured by a mortgage that is not assignable, the fund would loan the contributors the money required to pay off the existing debt (to secure this loan, the contributors would pledge their units in the fund).This loan would remain in place until the contributors fully repaid the note. Until then, the note would accrue interest, which would be paid by the contributors' quarterly distributions.

5. INDIVIDUALS/REVOCABLE TRUSTS OWNERS - Property is owned by a husband and wife, or their revocable grantor trust and all titleholders wish to exchange the property without recognizing a taxable gain.

a. The titleholders can contribute the property to the fund in exchange for units. This scenario will typically only work if the land has less than 25% debt to value. If the property is secured by a mortgage that is not assignable, the fund would loan the contributors the money required to pay off the existing debt (to secure this loan, the contributors would pledge their units in the fund). This loan would remain in place until the contributors fully repaid the note.Until then, the note would accrue interest, which would be paid by the contributors' quarterly distributions.

721 EXCHANGE SCENARIOS

SOWER
LEGACY FARMLAND FUND

6. INDIVIDUALS/REVOCABLE TRUSTS OWNERS - Husband and Wife own farmland in a revocable AB/bypass/family trust. The husband dies and wife wishes to contribute the land to the fund.

a. The wife, as trustee of the survivor's trust, can contribute her share of the farmland to fund. Contemporaneously with this contribution, the trustee of the irrevocable bypass trust will contribute its share of the farmland into the fund. The farmland owned by the bypass trust will have received a step up in basis upon the death of the husband, which will carry over to the units.

i. Note: it is also possible to only contribute property from one of the trusts rather than both. To do so, the land would need to be physically split or a partnership would need to be created as described in Section 9 below.

7. INDIVIDUALS/REVOCABLE TRUSTS OWNERS - Property is owned by individuals as tenants in common and only a portion of the titleholders want to contribute the property.

a. If the property has little or no debt, the non-contributors may be bought out by the contributors. To facilitate this transaction, the fund would loan the contributors the money required to acquire the non-contributors' interest in the property (to secure this loan, the contributors would pledge their units in the fund). This loan would remain in place until the contributors fully repaid the note. Until then, it would accrue interest, which would be paid with the contributors' quarterly distributions. This scenario will typically only work if the non-contributors' interest makes up less than 25% of the total value of the property and there is little to no existing debt.

b. Another option would be to physically split the land so that the value of each parcel is proportionate to the value of each owner group's interest: those that want to contribute their land to the fund (the A Group) and those that don't (the B Group) (note that this will typically only work if the land has less than 25% debt to value). If there was debt on the whole of the land prior to the split, you will likely need to get a new loan for the A Group land and a separate new loan for the B Group land.The A Group then contributes their land to the fund. If the property is secured by a mortgage that is not assignable, the fund would loan the contributors the money required to pay off the existing debt (to secure this loan, the contributors would pledge their units in the fund). This loan would remain in place until the contributors fully repaid the note. Until then, the note would accrue interest, which would be paid by the contributors' quarterly distributions. Whether such a transaction can be done on a tax deferred basis requires careful analysis and is fact specific. Please consult with your tax advisor before proceeding.

8. INDIVIDUALS/REVOCABLE TRUST OWNERS – Property is owned by individuals as tenants in common. There is a tract of land on the property that one of the owners wishes to retain.

a. The tract of land that one owner wishes to retain should be surveyed and separated from the remaining land and appraised separately. The land should then be re-titled in proportion to the ownership that each wishes to own in the separate parcels. See example below.

i. Example 1: There are four owners (Owners A, B, C, & D) of land that has a fair value of $1 million. The parcel (Parcel 1) that one owner (Owner A) would like to keep is worth $200,000. The remainder of the land (Parcel 2) is worth $800,000. Once the land is re-surveyed and re-titled, Owner A would own 100% of Parcel 1 and 6.25% of Parcel 2. Owners B, C, and D would each own 31.25% of Parcel 2. The owners of Parcel 2 can then contribute that land into the fund.

ii. Example 2: Same facts as above except the property has a mortgage equal to 20% LTV. In this case, Owner A contributes Parcel 1 and Owners A, B, C & D contribute Parcel 2 to the fund. Simultaneously, the fund would loan the contributors the money necessary to pay off their mortgage. This loan would remain in place until the contributors fully repaid the note.Until then, it would accrue interest, which would be paid by the contributors' quarterly distributions. Owner A would then enter into an option agreement or installment sale agreement to buy back his/her interest in Parcel 1.

9. INDIVIDUALS/REVOCABLE TRUSTS OWNERS - Property is owned by individuals as tenants in common, one of whom would like to continue to own his/her interest directly and lease and operate the ground while the other owners would like to contribute their interest to the fund and not be involved in the day-to-day operations.

a. The contributors can contribute their tenant in common interests to the fund, which shall hold them in a new subsidiary (Newco). Contemporaneously with this contribution, the non-contributor shall contribute their interest directly into Newco as well, creating a partnership for tax purposes, which shall be managed by the fund. The non-fund partner/operator can enter into a lease agreement with Newco. All income and loss from the partnership shall be divided proportionally between the fund and the non-fund partner/operator. If the property is secured by a mortgage that is not assignable, the fund would loan the contributors and the non-contributor the money required to pay off the existing debt (to secure this loan, the contributors would pledge their units in the fund and the non-contributor would pledge his/her interest in Newco). This loan would remain in place until the parties fully repaid the note. Until then, the note would accrue interest, which would be paid by the contributors' quarterly distributions and the non-contributor's share of Newco distributions.This scenario will typically only work if the land has less than 25% debt to value.

10. IRREVOCABLE TRUSTS - Property contributor would like to create a charitable remainder trust to hold their units.

a. The contributor has two options when dealing with a CRT. The first option is to transfer the units to a C-Corp and then the C-Corp can be contributed to the CRT. The C-Corp will pay income taxes at the corporate rate (currently 21% plus state taxes). Distributions, when received by the taxable CRT beneficiary are taxed at qualified dividend tax rates (between 0% and 23.8% plus state taxes). The second option is to contribute the units directly to the CRT (or first contribute them to a disregarded LLC and then contribute the LLC to the CRT) and incur the excise tax on UDFI (which, given the fund's low leverage, will be a small percentage of overall taxable income). Whether to proceed with the first or second option is fact specific and should be evaluated with your tax advisor. Also, since cash rents are typically less than 5% of fair market value, it is strongly advised that the CRT be formed as a NICRUT (Net Income Charitable Remainder Unitrust) which permits distributions of net income only (rather than out of the trust corpus). The second layer of taxation that results from using a C-Corp as described in option one above may be deferred by establishing an intermediate LLC (Investment Co.) owned by the CRT that owns the C-Corp.Because CRTs use a fiduciary accounting standard, the taxation of dividend income generated from the C-Corp. dividend may be deferred until it's distributed by Investment Co. to the taxable CRT beneficiary. Please consult your tax advisor for more information.

11. IRREVOCABLE TRUSTS - Property contributor would like to create an Intentionally Defective Grantor Trust to hold their units.

a. An Intentionally Defective Grantor Trust (IDGT) is an irrevocable trust which is designed to cause assets owned by the IDGT to be excluded from a taxpayer's estate for federal estate and gift tax purposes. Often times, IDGTs are combined with partnerships or limited liability companies to maximize a taxpayer's federal estate and gift tax exemption due to discounts related to the value of such equity interests. A property contributor may be able to contribute the property itself to an IDGT prior to contribution to the fund or may contribute the units of the fund to the IDGT. In either event, it is advisable to separate the contribution to the IDGT from the valuation of the property itself. The timing and best approach for the purposes of discounting is typically determined on a case-by-case basis. Please consult your tax advisor for more information.

12. CHARITABLE GIFT ANNUITY – Property contributor would like to donate his/her property to the church and receive an annuity for his/her life plus the life of the spouse on a second to die basis.

a. The contributor can create a synthetic annuity by establishing a charitable remainder trust whereby the foundation beneficiary agrees to purchase a portion of the units each year until the fund becomes publicly tradable. For example, property contributor would like to receive income equal to 6% of the value of the land every year. The annual dividend is equal to 2% of the original contribution value. The beneficiary, through a separate account, would acquire 4% of the units from the charitable remainder trust. The cash received from the unit purchase would be distributed to the property contributor.

721 EXCHANGE Q&A

SOWER LEGACY FARMLAND FUND

1. Will the fund retain the existing operator (which may be a member of the contribution group)?
a. The fund will continue to use existing operators if they meet the fund's financial and experience requirements. Any new lease with these operators will be on arms-length terms set by the fund. However, to comply with publicly traded partnership requirements, if a contributor and the contributor's related parties collectively own more than 5% of the value of the fund, a third party will be required to operate the land unless the general partner grants a related party consent.

2. Can I retain the homestead?
a. Yes, the homestead can be surveyed and appraised separately. Once completed, it can be re-titled and retained by the contributor.

3. I have or am considering establishing a conservation easement prior to contribution.Can I still contribute the farmland into the fund with this in place?
a. Yes, but this may reduce the number of units you receive for your contribution. Please consult with a Legacy Farmland Fund representative before proceeding.

4. Do I have to contribute the mineral rights when I contribute the farmland?
a. No, but this may reduce the number of units you receive for your contribution. Please consult with a Legacy Farmland Fund representative.

5. I have a wind lease on my farm. Do I need to contribute that lease when contributing the farmland?
a. No, but this may reduce the number of units you receive for your contribution. Please consult with a Legacy Farmland Fund representative.

6. If I have debt on my property, can the mortgage be assumed?
a. Depending on how the note is written, in many cases the mortgage on a property that an owner wishes to sell to the operating partnership is assumable.

7. What happens if I want to re-acquire the asset from the fund?
a. A contributor may be able to re-acquire an asset from the fund if the fund determines it to be in the best interest of the fund and there is appropriate value to be paid by the contributor. The terms, conditions, and valuation of such asset would be determined at such time.

b. If the fund and the contributor agree and the contributor complies with the redemption requires set forth in the fund's LLP Agreement, then the fund may be able to satisfy the redemption price through a sale of the asset; provided the terms, conditions, and valuation of such asset would be determined at such time.

8. What happens if the fund sells the property I contribute?
a. The fund will not sell any property that has been contributed without the consent of the initial contributor unless (1) the contributors (or the beneficial owners of the initial contributors) are deceased and the contributors' heirs have received a step-up in basis on the value of their units to their current value (2) the contributors have sold their units, (3) the fund is able to completely defer any gain on the sale of the asset through a qualified 1031 exchange transaction, or (4) the fund's organizational structure changes or tax laws change in a way that prevents a special allocation of gain to the contributor on the sale of the asset.

9. Can I fund a revocable bypass/AB/family trust with my units?
a. Yes

10. Can I gift my units to family members?
a. Yes. Please note that while the gift, if less than the annual exclusion, will not generate a tax liability, the recipient will not receive a step-up in basis on those units upon the contributor's death. Please consult your tax advisor for more information.

721 EXCHANGE Q&A

SOWER
LEGACY FARMLAND FUND

11. How many units can I transfer to my children each year without reducing my lifetime gift tax exemption?
a. It will depend on the current value of the units. In 2024, each taxpayer can gift $18,000 per recipient, so a husband and wife can gift $36,000 to one recipient. In the latter case, if the units are each worth $1,000, a couple could gift 36 units.

12. What do I do if I need additional funds for personal expenses but don't want to sell my units?
a. The fund was designed so that it could make interest only loans to limited partners if they needed money for personal expenses (to secure this loan, the contributors would pledge their units in the fund). Then, when distributions from the fund are made each quarter, a portion of that distribution would go to pay interest on the loan. This loan would remain in place until the contributors fully repaid the note. The amount that the fund can loan a contributor will depend on whether and to what extent the fund has previously made loans to the contributor.

LEGACY FARMLAND FUND TAX Q&A

SOWER
LEGACY FARMLAND FUND

1.What is my holding period in the units?
a. A partner's holding period for a partnership interest received in exchange for a contribution of property depends on the character of the property.
i. If the contributed property is a capital asset or property used in a trade or business (within the meaning of Sec. 1231) immediately prior to the contribution, the partner's holding period for the partnership interest includes the holding period of the contributed property. If it is not a capital asset or property used in a trade or business the holding period begins on the date of contribution.
ii. If the partnership interest is received in exchange for money or other property, the partner's holding period commences on the date the interest is acquired (i.e., the contribution date)

2.What are the tax consequences if I sell or redeem my units?
a. The difference between the sales price and the basis in your units is taxable. Your beginning basis in the units is equal to the basis in the land you contributed.

3.What are the tax consequences if I donate my units?
a. You are allowed a deduction of the full fair market value of such units, subject to certain limitations related to adjusted gross income (AGI).

4.What portion of my AGI can I deduct each year for donated units?
a. For a public charity or a donor-advised fund, the limit on donating appreciated non-cash assets held more than one year is 30% of AGI. The IRS permits a carryover for five tax years, should your charitable deduction exceed AGI limits in a given tax year.

5.Do my heirs receive a step up in the basis of the units when I die?
a. Yes, under current tax law, the outside basis of your partnership units will receive a step up in basis when upon death to the then fair market value of the units. The fund will have also made a 754 election, which provides a step-up of the inside basis of your units.

6.How long are capital gains taxes deferred?
a. The capital gain taxes remain deferred as long as the Partnership retains the asset(s) and the Unit Holder holds the Units. In other words, a Unit Holder will incur capital gains taxes if: (a) the Unit Holder redeems their Units for cash or (b) the subject property is sold by the partnership. In many cases, however, the operating partnership will sell the property as part of a 1031 exchange and avoid triggering the gain on the contributed property.

7.What happens to my suspended losses?
a. If contributed property partner has related losses that were not deductible by the contributing partner because of statutory limitations related to at-risk rules or passive activity rules those losses are not transferred to partnership--they are added to transferor's basis in the partnership interest.

8.What 704(c) allocation methodology does the fund use?
a. The final 704(c) allocation methodology has not yet been determined.

9.Will the fund make a 754 election?
a. Yes

10.Will the contribution of encumbered assets generate a taxable gain?
a. No. Because the fund's liabilities are non-recourse, the contributing partner should receive an allocation of non-recourse debt (in addition to any other allocation of non-recourse debt under 1.752-3) equal to the amount of the taxable gain that would allocated to the partner under 704(c) if the partnership disposed of all partnership property subject of nonrecourse liabilities in full satisfaction of the liabilities and for no other consideration.

LEGACY FARMLAND FUND TAX Q&A

SOWER
LEGACY FARMLAND FUND

11. How are Non-Recourse Liabilities allocated?
a. Pursuant to 1.752-3

12. Do profit distributions within the first two years constitute a disguised sale?
a. No. See Reg. §§ 1.707-4(b), 1.707-4(a)

13. Does the assumption of my mortgage or mortgage liability trigger a disguised sale?
a. If the mortgage debt has been outstanding for at least two years at the time of the transaction, then the mortgage debt generally will constitute a qualified liability and not be regarded as a "disguised sale". On the other hand, if the mortgage debt was incurred in the prior two years, then its characterization for disguised sale purposes may depend on how the borrowed funds were used. If the proceeds were used to invest in the property or to refinance debt on the property, then the mortgage debt generally will be a qualified liability and not considered a disguised sale.

14. How quickly after contributing my units to a CRT can I sell them without generating a tax liability?
a. If the units are held by a C-Corp owned by the CRT the corporation will realize a taxable gain and incur a corporate income tax liability if the assets are sold. For this reason, if the contributor wishes to diversity his/her holdings, it may be preferable to have a disregarded LLC owned by the CRT hold the units directly until they can be sold. Note however that any income received by the CRT from the LLC may be subject to the UBTI excise tax so careful consideration will be required to determine if the cost of the excise tax outweighs the cost of the gain on the sale of those assets if held by a C-Corp. Please consult with your tax advisor before proceeding.

15. If the fund loans me money to pay off my mortgage, can I contribute my units to a Charitable Remainder Trust?
a. Probably not unless the debt is more than five years old, and the property has been owned for more than five years. Therefore, if the contributor wishes to contribute their units to a charitable remainder trust and the contributed property as debt on it, the fund will need to acquire the property subject to the existing indebtedness. This may impact the value at which the fund can accept the property. Please consult with a Legacy Fund Trust representative.

16. As a contributor, am I taxed on the amount of cash that I receive as part of the transaction for the fund's pro-rata share of prepaid expense (i.e., property tax)?
a. The tax consequences will generally depend upon the nature of the expense. Reimbursements for prepaid property tax; however, is not likely to be taxable.

17. What are the tax consequences to a contributor if the fund converts to a REIT or C-Corp?
a. The structure of the conversion will likely dictate any potential tax consequences; however, if the fund were to convert to a C-Corp or REIT, a contributor generally will not recognize tax consequences as a result of the conversion; however, if the fund fails to satisfy the requirements related to a REIT or elects to be taxed as a C-Corp, there will be different ongoing tax consequences to the contributor, including taxation of dividends received from the C-Corp.

18. Would the fund be considered an investment company under Sec. 721(b)?
a. The fund should not be categorized as an investment company because it will not own stock or securities in other companies, the transferee is not a regulated investment company, real estate investment trust, and less than 80% of the transferee's value are in readily marketable stocks or securities (and any cash held will be predominately used for working capital purposes). See Sec. 351(e), § 1.351-1.

MLP & PUBLICLY TRADED PARTNERSHIP Q&A

SOWER
LEGACY FARMLAND FUND

1. What is considered "real property" for the purpose of calculating "qualifying income" from "real property rent"?
a. Under Sec. 1.856-3(d) real property includes land or improvements thereon, such as buildings or other inherently permanent structures (including items which are structural components of such buildings or structures). Real property includes, for example wiring in a building, plumbing systems, central heating or A/C, pipes or ducts, elevators or escalators or other items which are structural components of a building or other permanent structure. This does not include assets accessory to the operation of a business such as machinery, transportation equipment, office equipment, etc. Real property rents can be generated from term interests in real property, including fee ownership and co-ownership of land or improvements thereon, leaseholds of land or improvements thereon, options to acquire land or improvements thereon, and options to acquire leaseholds of land and improvements thereon (Sec. 1.856-3(c))

2. Are the following considered "qualifying income" under Sec. 7704(d):
a. Real Property Rent: Rental income from fixtures and improvements associated with rented farmland?
i. Yes. Rents from real property, as defined in Sec. 856(d)(1) include rent attributable to personal property which is leased under, or in connection with, a lease of real property, but only if the rent attributable to such personal property for the taxable year does not exceed 15% of the total rent for the taxable year attributable to both the real and personal property lease under, or in connection with such lease (with respect to each lease of real property, rent attributable to personal property for the taxable year is that amount which bears the same ratio to total rent for the taxable year as the average of the fair market values of the personal property at the beginning and at the end of the taxable year bears to the average of the aggregate fair market values of both the real property and the personal property at the beginning and at the end of such taxable year).
b. Real Property Rent: Income from custom farming or crop sharing?
i. Probably not. Sec. 856(d)(2) excludes any amount received or accrued, directly or indirectly, with respect to any real or personal property, if the determination of such amount depends in whole or in part on the income or profits derived by any person from such property (except that any amount so received or accrued shall not be excluded from the term solely by reason of being based on a fixed percentage of sales or receipts). However, the fund could still engage in crop sharing or custom farming if less than 10% of its gross income, including the crop sharing and custom farming gross income, is not considered "qualifying income". Alternatively, the fund could establish a wholly owned entity that is taxed as a C-Corp that could participate directly in these activities and generate qualified dividend income.
c. Real Property Rent: Flex provisions in a cash rent lease?
i. Probably. The flex provisions do not pay out unless the lessee's revenue exceeds a certain threshold, but this payout makes no reference to and is independent of tenant's profitability. This contrasts with a PLR where the percentage rent payment was deemed to not be "real property rents" because it was calculated based on net revenue minus expenses, including income taxes, rent, depreciation and amortization. See PLR 202205001.
d.Real Property Rent: Rental and option income from wind and solar leases?
i. Probably. See PLR 201549013.
e.Real Property Rent: Rental and option income from battery storage leases?
i. Probably. See PLR 201549013
f.Real Property Rents: Rental and option income for carbon sequestration?
i. Probably. See PLR 201549013.
g.Gains or Losses from Sales: Sales income from conservation easements?
i. Yes. Conservation easements would likely be characterized as either real property or a capital asset for the purpose of determining qualifying income.
h.Gains or Losses from Sales: Sales income from other land use easements?
i. Yes. Easements would likely be characterized as either real property or a capital asset for the purpose of determining qualifying income.
i.Interest Income: Interest income from loans to partners?
i. Probably. So long as such interest is not derived in the conduct of a financial business, which is unlikely given the circumstances for the loan, and the amount received or accrued, directly or indirectly, if the determination of such amount depends in whole or in part on the income or profits of any person. See Sec. 7704(d)(2) and Sec. 856(f).

2. Are the following considered "qualifying income" under Sec. 7704(d): CONTINUED

j.Interest Income: Interest income from loans to operators?

i. Possibly. So as long as such interest is not derived in the conduct of a financial business, which is unlikely given the circumstances for the loan, and the amount received or accrued, directly or indirectly, if the determination of such amount depends in whole or in part on the income or profits of any person.

k.Energy: Royalties from oil, gas, or other mineral interests?

i. Yes (also includes fertilizer, geothermal energy, and timber)

l.Energy: Other carbon income?

i. Possibly. Only if the carbon is it relates to processing, transportation, or marketing of "industrial sourced."

m.Other: Selling environmental credits (i.e., wetland mitigation or carbon credits)?

i. Possibly. See PLRs 201949004, 201949005, and 201949007.

3. What happens if the fund generates income that is non-qualifying as required under Sec. 7704?

Although highly unlikely, if the fund is publicly traded and less than 90% of its gross income consists of "qualifying income", the fund could be recharacterized as a corporation and the partnership shall be treated as if it transferred all of its assets (subject to its liabilities) to a newly formed corporation in exchange for stock in the corporation and then distributed such stock to its partners in liquidation of their interest in the partnership. However, the fund would be eligible to seek relief from the Treasury Secretary if such a failure was inadvertent.

C CORP AND S CORP CONVERSION

SOWER
LEGACY FARMLAND FUND

Here is a summarized list of the considerations for converting a C corporation to an S Corporation:

1. C corporation earnings are double taxed.

2. As a pass-through entity, an S Corp is generally exempt from taxes, and instead passes tax responsibility through to shareholders.

3. Built-in gains (BIG) tax is one exception to the federal tax exemption for S corps.

4. The recognition period for the conversion from C Corp to S Corp is five years, and there are limits to converting back to C Corp status.

5. Passive income inherited by S corps from C corps can also be subject to tax—and in some cases can terminate S Corp status.

6. An S corporation can't inherit operating losses from a C corporation to pass through to shareholders for deduction.

7. S corps can't use last-in, first-out (LIFO) as an inventory valuation method, and if the C Corp is using it at S Corp election, a tax is imposed.

8. Not all C corps are eligible for S Corp conversion, and restrictions exist on who can own S Corp shares.

CONVERSION NOTES

#1 and #2 – There will be a different taxing regime that the taxpayer would need to get comfortable with. Change in tax layers, tax characterization, tax rates including NII.

#3 is manageable if assets not sold within 5 years.

#4 is manageable as long as the C Corp didn't previously convert from an S Corp to a C Corp within the past 5 years.

#5 can be problematic – An S Corp with C Corp undistributed earnings cannot have greater than 25% of its gross receipts be passive income. Passive income includes rents, royalties, interest, annuities, and dividends. A tax will be imposed on excess passive investment income. If there are 3 consecutive years, the S status will be terminated. A couple specifics to note:

-Rents does not include rents derived in the active trade or business of renting property. Rents received by a corporation are derived in an active trade or business of renting property only if, based on all the facts and circumstances, the corporation provides significant services or incurs substantial cost in the rental business. Generally, significant services are not rendered and substantial costs are not incurred in connection with net leases. Whether significant services are performed or substantial costs are incurred in the rental business, is determined based upon all the facts and circumstances including, but not limited to, the number of persons employed to provide the services and the types and amounts of costs and expenses incurred (other than depreciation).

- "In PLR 200143012, pursuant to §1362(d)(3)(C)(i), the IRS ruled that rents received by an S corporation from commercial real estate ventures as part of its share of partnership income, distributed through two tiers of disregarded entities, a QSub and LLC wholly owned by the QSub, would not constitute passive investment income." The character of income through a partnership is retained by the S Corp and the distributive share of gross receipts is used in the S Corp's calculation. Same as noted in the next point on ordinary income.If rents are to be used as active income, need to get comfortable that they qualify.

-Gross receipts related to ordinary income in the partnership would be considered active income for the S Corp test.

-To avoid, the S Corp could distribute out all undistributed C Corp earnings which will trigger taxable dividend income.

#6 Any NOLs or capital loss carryforward amounts of the C Corp will be available unless the S corporation terminates and the carryforward period is still available. S Corp years count against the carryforward period.

#7 – Likely not an issue with inventory. Can't use LIFO valuation method.

#8 – There are restrictions on eligible shareholders – certain trusts and estates cannot be S Corp shareholders (could be an issue). There cannot be two classes of stock (likely not an issue).

If converting to an S Corp is not possible, the C Corp could convert to an LLC. However, that conversation would be taxable (trigger unrealized appreciation) so not a great answer.

DISCLAIMER

SOWER
LEGACY FARMLAND FUND

This material does not constitute an offer to sell, or a solicitation of an offer to purchase interests in Legacy Farmland Fund LLP (the "Fund"). No commitment or obligation of any kind or character is intended to result from this material. Any interests are exclusively offered pursuant to the Confidential Private Placement Memorandum of the Fund. The purchase of an interest in the Fund involves significant risks. Your professional advisor(s) and you should carefully read the Confidential Private Placement Memorandum, including all risks factors stated therein. This material contains confidential and proprietary information.

This material contains brief, selected information pertaining to a contribution to the Fund. This material does not purport to be all-inclusive, nor does it purport to contain all the information which a potential investor may require in order to consider an investment in the Fund. The Fund and its partners, officers, employees, contractors, and agents make no representations or guarantees as to the accuracy of the information in this material and disclaim all liability with respect to any errors, inaccuracies, or misstatements contained herein. You and your professional advisor(s) should make your own inquiries to verify the information contained herein.

The Fund and its partners, officers, employees, contractors, and agents do not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal, or accounting advice. You should consult your own tax, legal, and accounting advisors before engaging in any transaction or investment in the Fund.