

Conservation Easements: Estate & Income Tax Implications

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Emphasis on Fee-Based Financial Planning

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3 Major Federal Tax Incentives

1. Charitable Income Tax Deduction
2. Reduction in Value of Land for Estate Tax Purposes
3. Estate Tax Exclusion

Charitable Income Tax Deduction

- Donated to “Qualified Organization”
- “In Perpetuity”
- For One or More of the 4 “Qualified Conservation Purposes”
 - Public Recreation or Education
 - Habitat Protection
 - Open Space Protection
 - Historical Preservation

Easement & Valuation

Example:

Fair Market Value of Land Before Easement:

\$1,000,000

Fair Market Value of Land After Easement:

\$700,000

Value of Easement:

\$300,000

Deduction Limitations: Individual Donor

- 50% of AGI in any year
- 16 years to use the deduction (traditional time period is 5 years)

Deduction Limitations: Individual Donor

Example:

- Deduction: \$300,000
- AGI: \$150,000
- 50% AGI = \$75,000
- \$75,000 x 4 years = \$300,000

Deduction Limitations: “Qualified Farmer or Rancher”

Example:

- Deduction: \$300,000
- AGI: \$150,000
- 100% AGI or up to 16 years to use deduction
- $\$150,000 \times 2 \text{ years} = \$300,000$
- *Estimated Inc. Tax Savings* = \$84,000
 - (28% of \$300,000)

Definition of “Qualified Farmer or Rancher”

1. More than 50% of donor’s gross income for taxable year of donation is from the trade or business of farming; and
2. The conservation easement includes a restriction that provides that the land must remain available for agricultural purposes.

2001 Tax Act

Estate & Gift Tax Exclusion Amounts & Top Rates

Year	Estate Tax Exclusion Amt	Gift Tax Exclusion Amt	Top Marginal Rates
2001	\$675,000	\$675,000	55% +
2002	\$1,000,000	\$1,000,000	50%
2003	\$1,000,000	\$1,000,000	49%
2004	\$1,500,000	\$1,000,000	48%
2005	\$1,500,000	\$1,000,000	47%
2006	\$2,000,000	\$1,000,000	46%
2007	\$2,000,000	\$1,000,000	45%
2008	\$2,000,000	\$1,000,000	45%
2009	\$3,500,000	\$1,000,000	45%
2010	<i>Estate/GST Tax Repealed</i>	\$1,000,000	35%
2011	\$1,000,000	\$1,000,000	55% +

Estate Tax Exclusion

Before Easement Value:	\$1,000,000
Easement Value:	<u>(\$300,000)</u>

After Easement Value:	\$700,000
40% Exclusion:	<u>(\$280,000)</u>

Amt. Includable In Estate:
\$420,000