

# 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

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

# Charitable Income Tax Deduction

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- 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

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## **Example:**

Fair Market Value of Land Before Easement:

**\$1,000,000**

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Fair Market Value of Land After Easement:

**\$700,000**

**Value of Easement:**

**\$300,000**

# Deduction Limitations: Individual Donor

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

# Deduction Limitations: Individual Donor

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## **Example:**

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

# Deduction Limitations: “Qualified Farmer or Rancher”

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## 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”

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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

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<b>Year</b>	<b>Estate Tax Exclusion Amt</b>	<b>Gift Tax Exclusion Amt</b>	<b>Top Marginal Rates</b>
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

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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**