

## **Expanded Tax Incentives for Conservation Restrictions**

Responding to the land protection community and strong land protection advocates in Congress, the full Congress recently approved expanded federal income tax deductions for conservation easement donations and bargain sales. The new incentives may significantly increase donations of conservation restrictions on ecologically important land in the next year. The changes are set to sunset on December 31, 2007, so non-profit land trusts are quickly getting the word out to potential easement donors, and to the lawyers, appraisers and accountants with whom they work. The new law mixes stronger tax incentives with several crucial reforms to the rules for easement donors. U.S. Senators Baucus and Grassley recently introduced legislation to make these new deductions permanent, a prospect that has land trusts very encouraged about the future.

## **Expanded Charitable Deductions**

Individual taxpayers donating a conservation restriction before December 31, 2007 can now claim a charitable deduction up to 50 percent of their adjusted gross income (up from 30 percent previously), with the remainder eligible to be carried forward for up to 15 years (increased from 5 previously). Easement donors who previously could not have deducted the full value of their gifts will be able to deduct more of that value over a longer time period, and will not lose these benefits simply because their income level is modest.

Under the former rules, an individual with an annual adjusted gross income of \$50,000 who donated a conservation easement worth \$200,000 could deduct up to \$15,000 of the easement gift in year one, and another \$15,000 over each of the next five years, for a total deduction of \$90,000 spread over six years. Under the new rule, this same donor can deduct up to \$25,000 in the year of the donation and an additional \$25,000 in each of the ensuing seven years, before using up the entire deduction.

The benefits are even greater for farmers, ranchers and forest owners, who can deduct up to 100 percent of their adjusted gross income (assuming that more than 50% of their gross income comes from farming) for donations or bargain sales of conservation restrictions on their properties.

## **Reforms to the Rules Governing Appraisals and Property Valuations**

Along with the welcomed changes, land trusts will need to be mindful of the increased penalties for donors and appraisers in these cases. The bill sets higher standards for “qualified appraisers,” raises standards for appraisals of all donated property (worth \$5,000 or more) and sets higher penalties for both appraisers and donors who engage in a “substantial” or “gross” misstatement of value. The law defines a “substantial valuation misstatement” as 150 percent or greater than the correct valuation (down from 200 percent), and a “gross valuation misstatement” as 200 percent or greater than the correct valuation (down from 400 percent). Under the new rules, “reasonable cause” is no longer a valid defense for a gross valuation misstatement. These new appraisal standards are permanent and apply to all donations made after August 17, 2006.

For more information on the new law, go online to [www.lta.org](http://www.lta.org) or [www.massland.org](http://www.massland.org), the web sites of the national Land Trust Alliance and the Massachusetts Land Trust Coalition. And a caution to all that tax revisions and interpretations are frequent, so advice from a competent legal and/or tax professional is a must in considering any conservation transaction.

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