



FINANCIAL REWARDS FOR PRESERVING LAND? CONSERVATION EASEMENT INCOME TAX CREDITS ARE ONE WAY

You have probably been hearing more and more in the news these days about conservation easement income tax credits, but you may be wondering what they are all about. Conservation easement income tax credits are a relatively new land preservation tool available to help Colorado landowners to preserve their working farms and ranches, and protect important wildlife habitat and scenic views. Landowners can get compensation for the development potential of their land without actually developing it. In order to receive conservation easement income tax credits, a landowner must donate a conservation easement to a qualified conservation organization, which would be a government open space program or a land trust (a non-profit 501(c)(3) that specializes in land preservation).

A conservation easement is a permanent restriction on how the land can be used, often preventing or limiting commercial, industrial and residential development in order to protect conservation values (wildlife habitat, open space, public recreation, working agricultural lands and scenic vistas, among others). The land stays in private ownership and can be mortgaged, leased, sold or passed to heirs; however the restrictions follow the land forever. The holder of the conservation easement (a land trust or government open space program) has an obligation to monitor the property on an annual basis to ensure that none of the conservation easement restrictions are being violated.

One of the ways a landowner gets rewarded for donating a conservation easement is by obtaining Colorado state income tax credits. First, the landowner learns what the value of the donation is by hiring a qualified appraiser. The appraiser will look at the value of the land as it is today and then determine the value of the land with the conservation easement in place. The difference between the two equals the donation value of the conservation easement. Based on that donation value, the landowner will earn tax credits at a rate of 50% of the donation value up to the cap of \$375,000 (based on a \$750,000 donation).

Landowners can use the tax credits to offset their state income tax liability and they have up to 20 years to use up their credits. For many people, their state income tax liability is low enough that using the tax credits is not attractive. The other option is to sell the credits through a tax credit broker for approximately 80% of the face value of the credit. There are also federal deductions available for the donors of conservation easements, but the applicability of the tax deduction is different for each landowner based on their income level.

Donating a conservation easement isn't the best fit for all landowners, but for ones who want to stay on their land and ensure that it remains undeveloped, it can allow for a cash infusion and the peace of mind that the farm will always remain a farm and the elk will always have a place to graze.

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