



## **CAN I REALLY PRESERVE MY LAND AND MAKE MONEY? HOW TO TURN CONSERVATION EASEMENT TAX CREDITS INTO CASH**

Conservation easement income tax credits are a hot new land preservation incentive available to help Colorado landowners preserve their farm and ranchland, and protect important wildlife habitat and scenic views. With these tax credits, 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.

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).

A landowner's major reward for donating a conservation easement is to earn Colorado state income tax credits. The value of the credits is based on a qualified appraisal of how much value the landowner is giving up by permanently restricting the use of their land. For example, if the property was worth \$1,000,000 as a potential subdivision (what could be done today), but is only worth \$600,000 as farm ground and a house site (use restricted by the conservation easement), the donation value would be the difference between the two or \$400,000. After learning the donation value, the landowner will earn tax credits at the rate of 50% of the donation value up to a cap of \$375,000 (based on a \$750,000 donation value). In this example of a donation value of \$400,000, the tax credit would be \$200,000.

Landowners can use tax credits to offset up to 20 years of their state income tax liability. 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 all or some of the credits through a tax credit broker for approximately 80% of the face value of the credit. Tax credit brokers typically review all of the documents regarding the donation of the conservation easement and if they are comfortable that the rules have been followed, they will sell the credits to a Colorado taxpayer who is interested in saving money on their taxes.

Buyers of the credits have an incentive because they buy the credits at a discount, saving money on their taxes. For example, a buyer may purchase \$100,000 in tax credits for 85% of face value or \$85,000 and save \$15,000 on their state taxes. Buyers are interested in purchasing tax credits that are capable of withstanding any challenges by the IRS or the State of Colorado, therefore it is important that landowners hire qualified professionals and work with experienced land trusts. The Colorado Coalition of Land Trusts ([www.cclt.org](http://www.cclt.org)) can help you locate an experienced land trust. Checklists to help you select the best professional team are available at [www.taxcreditconnection.com](http://www.taxcreditconnection.com).

Donating a conservation easement isn't the best fit for all landowners, but for people 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.

For more information, please contact:

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