What are the income tax benefits?

To qualify for a tax deduction, one requirement is that a conservation easement donation must be a charitable gift as defined by the IRS. The donation must be made to a qualified charitable organization and, if worth more than $5,000, documented by a qualified appraisal. The maximum charitable deduction is set by federal tax law at a percentage of your annual adjusted gross income (AGI).

In 2015, Congress made permanent the enhanced federal tax incentive for conservation easement donations. Generally, the donor of a conservation easement may be allowed to deduct up to 50 percent of adjusted gross income in one year. The excess value of the gift may be carried forward for 15 additional tax years. Qualifying farmers and ranchers may deduct up to 100 percent of their adjusted gross income, provided the land remains available for agriculture. These benefits were signed into law on December 18, 2015, and the terms apply to donations made at any time in 2015 and to all donations made after that.

For example, the 2015 rules allow a landowner earning $100,000 AGI a year who donated a $1 million easement to deduct $50,000 (50% of $100,000 AGI) in the year of the donation and then $50,000 per year for an additional 15 years for a total of $800,000 ($50,000 * 16 years) in reduced taxes. In this same example, if the landowner qualifies as a farmer or rancher, the landowner will be able to deduct $100,000 (100% of AGI) per year and will have reduced his or her taxes by the full value of the donation ($1 million) in 10 years ($100,000 * 10 years).

If the landowner owns the property for less than one year, the deduction is limited to the basis of the landowner’s property. Corporate property also is treated differently, and other rates apply. In some states, the donor also may be entitled to a deduction toward state income taxes. In all cases, the donation should be reviewed with a tax professional or attorney to determine the deductions allowed.

ENHANCED TAX BENEFITS OF DONATED CONSERVATION EASEMENTS

50% deduction of AGI per year

16-year period to realize tax benefit

100% AGI tax relief per year for farmers/ranchers