

FEDERAL INCOME TAX IMPLICATIONS

of a Conservation Easement Donation

HOW IS THE VALUE OF THE CONSERVATION EASEMENT DETERMINED?

The value of the easement is determined by a qualified appraiser, who is selected and paid for by the property owner. (A list of qualified appraisers is available from the Land Conservancy). The appraiser determines the value of the land at its market or development value and then at its value, using the development and subdivision restrictions of the easement. The difference between the two values is the value of the easement, which is also considered the value of the contribution to the Land Conservancy of Adams County.

EXAMPLE:

John and Mary Smith own a 50 acre farm.

Market value per acre is \$5000 x 50 acres = \$250,000

Restricted use value per acre is \$3000 x 50 acres = \$150,000

(Market value) - (Restricted use value) = (Contributed Easement Value)

\$250,000 - \$150,000 = **\$100,000**

HOW IS THE CHARITABLE CONTRIBUTION DEDUCTED FOR FEDERAL INCOME TAX PURPOSES?

Determine the adjusted gross income figure of the property owner(s).

On an annual basis, all or a portion of the charitable contribution in an amount not to exceed 50% of the adjusted gross income may be claimed as a deduction.

For farmers, a tax deduction may be taken for up to 100% of their adjusted gross income, zeroing out any potential income taxes to be paid.

Any remaining balance of the contribution may be deducted based on this formula over an additional 15 years. Any balance not used by the 16th year is lost.

EXAMPLE:

John and Mary Smith own a 50 acre farm which has a *Contributed Easement Value* of \$100,000. Their adjusted gross income is \$30,000.

Year 1

(adjusted gross income) x 50% = amount of deduction

\$30,000 x 50% = **\$15,000**

The landowners are only taxed on \$15,000 of income instead of \$30,000!

Easement Donation Value: \$100,000

Deduction: -\$15,000

Balance: **\$85,000**

Years 2+

Each year, the Smiths use \$15,000 of the remaining charitable deduction until it is used up in the 7th year.