



CONSERVANCY for Charles County, Inc.

Conservation Easement

Tax Incentives for Charles County Landowners

Ted Baker and Christine Parker, CFP®

A conservation easement can be a powerful financial, estate and tax planning tool. It is a voluntary agreement entered into by you, the private landowner, and a local land trust, such as the Conservancy for Charles County, Inc. (CCC) and/or a government agency.

Donating a conservation easement is a major financial decision, and tax incentives that come with a qualified donation help make it possible for private landowners in Southern Maryland to protect their land and preserve our rich history, heritage and natural environment.

It's one of the best tools available to insure that your land is preserved undeveloped for perpetuity. If you care about your land and keeping it for the enjoyment of future generations, a conservation easement is an easy way to do it.

Your Rights - When you choose to donate a conservation easement, you continue to own your land and retain the right to use your land. You can retain the right to manage it for agriculture, forestry, recreation (for example, hunting and fishing) and wildlife habitat. If agreed upon in the easement, you can retain the right to build additional structures that are necessary for the continuing farming operation on the land, and retain the right to develop one or more additional homes on the property. You may sell and bequeath your protected land to anyone at any time, but all future owners are required to follow the terms of the perpetual conservation easement.



Bowling Farm 61 acres – Grantor Dr. Lloyd S. Bowling, Sr.

FEDERAL INCOME TAX

Your conservation easement may provide a federal income tax charitable deduction incentive. (§170(h) Internal Revenue Code and §1.170A-14 Treasury Regulations)

Protecting your land from development with a conservation easement may reduce the value of the land, and this “reduction in value” may qualify as a non-cash charitable “gift.” The before and after property valuations with the conveyance of an easement must be determined by a qualified real estate appraiser. You may claim a charitable deduction up to 30 percent of adjusted gross income in the year of the donation and any excess may carry-forward for 5 years.

Example: A qualified appraiser values a landowner's hardwood forest land before the easement for best use at \$1 million and values the land with restricted use after the easement at \$400,000. The charitable gift (reduction in value) is \$600,000.

The exact amount of tax savings to you, the donor, depends on several factors:

- ✿ How long you have owned the property (benefits are generally greater if owned for more than one year);
- ✿ How you have used the property (residence, investment, agricultural);
- ✿ Your income (the higher one's income, the more one will save on taxes); and
- ✿ The value of the donated property (the more valuable the property, the bigger the deduction).

FEDERAL ESTATE TAX

Your conservation easement may provide a federal and estate tax incentive. (§ 2055(f) and § 2031(c) Internal Revenue Code)

You may exclude from your taxable estate, the donated gift and 40 percent of land value after the easement up to \$500,000 per owner.

Example: Mr. & Mrs. Burns own a farm valued at \$3,000,000 before the easement and \$1,500,000 afterwards. If Mr. Burns dies, \$2,500,000 can potentially be removed from the gross estate. First, it has a post-easement value of \$1,500,000, which is half the original value. Second, each of the donors can take an exclusion of 40 percent of the new land value. That would be \$600,000 apiece, but since the maximum exclusion per person is \$500,000, their combined exclusion is \$1,000,000.



Mudd Farm 187 acres - Grantor Dr. Samuel A. Mudd Society

MARYLAND INCOME TAX

Your conservation easement may provide a state income tax credit or deduction incentive. (§ 10-218 and § 10-723 Maryland Tax-General Article)

You may claim a credit against state income tax for the donated gift to CCC that is jointly held with Maryland Environmental Trust (MET), up to \$5,000 in the year of donation and any excess may carry-forward for 15 years. If the credit is taken then the deduction is disallowed.

PROPERTY TAX

Your conservation easement may provide a property tax incentive. (§ 9-107 of the Maryland Tax-Property Article)

You may owe no property taxes for 15 years for land with an easement donated to CCC that is jointly held with MET. At the end of the 15 year period, unimproved land under the easement will be assessed at the highest agricultural rate. The tax credit and assessment rate will not apply to any residential improvements, or to a minimum of one acre around these improvements.

Yet another avenue to property tax relief is on the horizon, thanks to state legislative action in the 2012 session. HB 1054 specifically authorizes Charles County government to enact local property tax relief for donors of perpetual conservation easements in Charles County. We will provide details about the local bill and its progress.

BARGAIN SALE

Selling a conservation easement at a discounted price "a bargain sale" can also be an income tax incentive to the seller.

Other important information is provided below:

Conservation Value – To qualify for tax incentives, the easement must have "conservation value" and be donated in perpetuity for "conservation purposes." (§170(h)(4) Internal Revenue Code)

Conservation purposes include:

- ✿ Protection of relatively natural habitat of fish, wildlife or plants;
- ✿ Preservation of a historically important land area or a certified historic structure (listed in the National Register or located in a registered historic district);
- ✿ Protection of open space, including farmland and forest land for the scenic enjoyment of the general public or pursuant to clearly delineated federal, state or local government conservation policies; and
- ✿ Protection of land areas for outdoor recreation and education of the general public.

Deed of Conservation Easement - The easement describes in detail the property being encumbered, the stated conservation purpose, the protection of the property in perpetuity, any public access allowed, reserved rights, provisions for subordination and allocation of proceeds. CCC will be pleased to work with you to design a conservation easement that reflects your plans for your land's future and that protects its important conservation values.

Conservancy for Charles County – Founded in 1996, CCC is a local nonprofit land trust actively working to protect and preserve Charles County's open space, productive farmland, and natural and historic resources. CCC's stewardship program plays a critical role in monitoring land preservation projects. The CCC and MET work closely together to help landowners preserve land. To date, nearly 1,700 acres of conservation easements have been granted to CCC and many are co-held with MET. CCC has been a Land Trust Alliance member since 1997.

Appraisals - To use tax incentives, you will need to hire a [qualified independent real estate appraiser](#) to determine the gift value of the conservation easement. (§1.170A-14(h)(3)(i), (ii) and §1.170A-13 Treasury Regulations)

For more information, please call 301-932-5714, email info@conservecharles.org, visit www.conservecharles.org or write P.O. Box 1358, Waldorf, MD 20604.