

California landowners can realize up to 94.6% in tax savings for conservation easement donations

by Lawrence I. Grossman

The California Natural Heritage Preservation Tax Credit Act of 2000 now offers a state income tax credit equal to 55% of the value of a donated easement for properties approved by the Wildlife Conservation Board. Combined with state and federal income tax deductions for the donation, California landowners can now realize up to 94.6% of the value of the donated easement in tax savings.

Conservation easements are one of the least known and most powerful conservation and charitable planning tools available to California landowners. A conservation easement is a legal agreement by which a property owner voluntarily restricts activities, such as residential or commercial development, that may take place on the land.

The value of a conservation easement is the difference between the appraised value of the land before and after the existence of the easement. For example, assume that the fair market value of a property, without a conservation easement, is \$2 million to a developer who would subdivide the land and sell home sites or completed homes. If the property were subject to a conservation easement that prohibited residential construction, the value might drop to \$1 million. The value of the conservation easement would then be \$1 million. That is the amount from which income tax deductions and credits as well as estate tax deductions would be based.

Chart:

Valuing a conservation easement

Value of land prior to easement	\$2,000,000
Value of land after easement	<u>\$1,000,000</u>
Value of easement	<u>\$1,000,000</u>

Income Tax Savings

Value of easement	\$1,000,000
State Inc. Tax Savings <i>(Natural Heritage Preservation Act of 2000)</i>	\$ 550,000
Fed. Inc. Tax Savings	<u>\$ 396,000</u>
Total Tax Savings	<u>\$ 946,000</u>
Net cost of donation	<u><u>\$ 54,000</u></u>

Conservation easements are used by landowners interested in the stewardship of open space. Every easement is a unique agreement between the landowner and a qualified conservation organization. Conservation easements protect the agricultural, ranching, ecological, recreational or other uses of the land in perpetuity.

Conservation easements are entirely voluntary and they allow the family to remain on the land and continue its income producing activities, such as ranching or farming.

Later, additional tax savings for a charitable contribution can be realized if the landowner donates the land itself to a charitable organization. If instead the land passes to the landowner's heirs, there could be significant estate tax savings for land that has a conservation easement as estate taxes are based on a lower estate value.

California's Natural Heritage Preservation Tax Credit Act of 2000 promotes habitat conservation for native species of plants and animals, for agricultural lands, for water rights, and/or for parks and open space. The Wildlife Conservation Board must approve properties eligible to participate in the program.

The California Oak Foundation recommends that landowners consult with their financial and tax advisors to review their individual situations.

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