



TAX BENEFITS of CONSERVATION EASEMENT DONATIONS

There are potential financial benefits available to landowners who agree to protect their land with a conservation easement such as a deduction for federal income taxes, a credit for state income taxes, property tax credits, and federal estate tax exemptions. Agreeing to protect your land in the form of a Deed of Conservation Easement may be considered a non-cash charitable gift by the Internal Revenue Service (IRS). A qualified appraiser must establish the value of the easement which is then used to calculate some of the tax benefits.

Federal Income Tax

The donation of an easement, under Federal and State tax law, can serve as the basis for a deduction from income taxes. To use the value of the donation as a deduction, a qualified appraiser must determine the value of the conservation easement gift using criteria established by the IRS. For appreciated property, the maximum Federal deduction permitted is 50% of adjusted gross income for up to 16 years. Donors may deduct up to 100% of their adjusted gross income **if** the majority of that income came from farming, ranching or forestry and may continue to take deductions for as long as 16 years. For further information, see Internal Revenue Code section 170(b) and 170(h).

State Income Tax Credit (MET, DNR and MALPF easements only)

Maryland law provides a tax credit of up to \$5,000 per year against state income taxes when an easement is donated by individual landowners and pass-through entities to MET. This \$5,000 credit may be taken for each of the following 15 years, for a maximum total of \$80,000 in credit, but the total amount cannot exceed the value of the donation. For a taxable year the total aggregate amount of credits claimed by members of pass-through entities cannot exceed \$200,000. For further information, see Md. Ann. Code Tax-General 10-723. *Note: tax benefits may be impacted by US Treasury Decision 9864 regarding regulations on charitable contributions and state and local tax credits. See a tax advisor for more information.*

State Income Tax Deduction

Maryland law allows, with some limitations, an individual who itemizes deductions on their federal income tax return to itemize deductions on their state income tax return. Generally, an individual cannot claim both a deduction and credit for the deduction a conservation donation of the conservation easement. For further information, see Md. Ann. Code Tax-General 10-218 and 10-219 of the Tax-General Article.

Federal and State Estate Taxes

For estate-tax purposes, land is generally valued at its maximum development potential, often generating very high estate taxes. An easement limits the amount of development that can occur, thus lowering the appraised value of the land. Conservation easements can be effective tools for reducing estate taxes. See Internal Revenue Code Section 2031(c).

Property Tax Credit

Maryland law allows a landowner to pay no property tax on unimproved land that is subject to a donated MET easement for 15 years from the date of donation. For further information, see Md. Ann. Code Tax-Property 9-107. At the end of the 15-year period, the unimproved land under donated easement will be assessed at the highest agricultural rate and will qualify for this assessment rate even if it is not actively farmed. If the land is in agricultural use it will be assessed at the appropriate agricultural level. For further information, see Md. Ann. Code Tax – Property 8-209.1.

Tax advantages of easement donations will vary with individual financial situations. Consult a tax advisor or your attorney for advice on how a conservation easement would affect your taxes and estate. Further information and literature is also available from the Maryland Environmental Trust, at (410) 697-9515, or www.dnr.maryland.gov/met.