



## **TAX BENEFITS of CONSERVATION EASEMENT DONATIONS**

There are significant financial benefits available to landowners who agree to protect their land with a conservation easement such as a deduction for federal income taxes and a credit for state income taxes. In addition, there are property tax credit and possible 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, generally leads to a significant deduction from income taxes. To use the amount 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.

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

State 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***

State law allows, with some limitations, an individual who itemizes deductions on their federal income tax return to itemize deductions on their Maryland income tax return. One of the limitations is that an individual cannot deduct a conservation easement donation if they claimed the Maryland income tax credit for donating the conservation easement.

### ***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. This makes easements effective tools for reducing estate taxes. In addition, there is a large estate tax exclusion (40% of land value up to \$500,000 per owner), for certain land that is subject to a donated easement. This allows the land to be partially shielded from estate taxes.

### ***Property Tax Credit***

A landowner will pay no property tax on unimproved land that is subject to a donated MET easement for 15 years from the date of donation. At the end of the 15-year period unimproved land under donated easement will be assessed at the highest agricultural rate. This rate is currently \$500 per acre. Property will qualify for this assessment rate even if the property is not actively farmed. If the property is in agricultural use it will be assessed at the appropriate agricultural level. However, the tax credit and assessment rate will not apply to any residential improvements, or to a minimum of one acre around these improvements. For further information see Md. Ann. Code Tax-Property 9-107.

*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](http://www.dnr.maryland.gov/met).*