

Conservation Tax Relief

If you have valuable features on your property like riparian corridor, timber, grazing land, or multiple housing rights and you have ever thought of protecting land for wildlife or conservation purposes—this might just be your year.

There are great tax breaks for conservation projects in 2007. Let's examine a fictional, but realistic *Case Study* to see how tax breaks support conservation, and conservation supports tax breaks!

Fictional Case Study

Say Jim and Debbie Tomes own 10 acres along the creek in Freshwater. Jim works for Cal-Trans, and Debbie stays home and manages the homestead of three children, one house, a one-half acre garden, five milk goats, a small orchard and three acres of redwood forest.

For the sake of argument, let's say Jim Tomes earns \$100,000 per year. After he takes his standard deduction and five dependent exemptions, the Tomes are in a 25% marginal tax rate on \$73,200 and would owe \$11,415 in taxes.

Or maybe they decide to put a conservation easement on their property. They meet with a Land Trust professional and discuss the conservation values on their property. In this meeting the Tomes learn that their property has riparian values, wildlife habitat value of their forest, and they have the right to split the property and build another home.

The Tomes discuss between themselves the vision they have for their property. They decide they love the rural atmosphere and they don't plan to split the acreage or build another house. They work with the Land Trust to develop a personalized conservation easement designed for their vision of the land—they will pull the grazing fence back from the creek and plant trees in the riparian region, they will only harvest forest trees very minimally, they will give up the right to split the property and build another house. The Tomes still own and control the land—they simply gave up some of their property rights for wildlife habitat, because of their vision and care for the land.

Once the easement is finalized, the Tomes hire an appraiser to appraise the value of the rights they have relinquished. The appraiser might value the rights as worth \$250,000. (Remember this is fictional, but realistic)

So Tax Law in 2007 says that the Tomes can take the appraised value of the rights donated as a charitable deduction—up to 50% of their total income, and they can carry it forward for 15 years.

If the Tomes earned \$100,000 in 2007, they could deduct \$50,000 for the conservation easement, and after dependent credit deductions they would only pay taxes on \$33,500. (In a real situation most homeowners would also have property tax and mortgage interest deductions also). Now at a marginal tax rate of 15%, their taxes are \$4,270. That is a

yearly tax savings of \$7,145, a 5 year savings of nearly \$36,000.* And this is just federal taxes—landowners would see tax savings on state income taxes also.

If the Tomes earned over 50% of their income as farmers or ranchers, 100% of their income can count against their charitable donation, they could deduct \$100,000, pay \$0 tax on their income, and they could carry that forward until they counted the full \$250,000 donation.

That is the way the Tax Law is for 2007—but it is currently up for review.

If you want to be sure you can take advantage of this Conservation Tax Relief, think about conservation on your property in 2007. For more information contact your tax professional, and for conservation easement advice call Susan Ornelas, executive director at Jacoby Creek Land Trust - 822-0900, or e-mail at jclandtrust@yahoo.com.

*The financial scenario is simplified for demonstration purposes. JCLT can provide advice on conservation easements, but recommends individuals consult with their tax accountant regarding their personal tax circumstances.