

Detailed Explanation and Illustrative Example of Conservation Easements

In addition to their intrinsic wildlife utility, contribution to positive company image, and regional aesthetic improvements, conservation easements (a legal agreement a property owner makes to restrict the type and amount of development that may take place on his or her property) may add to a company's bottom line. The economic benefit is due to a one-time income tax savings and multiyear property tax savings. The actual savings vary on individual circumstances and should be carefully considered by qualified tax professionals. A small amount of planning could result in producing substantive value to a company.

The income tax savings are realized depending on how the easement is structured. The alternatives include whether the property is donated to a nonprofit organization or held. In the case of a donation, the fair market value (FMV) of the property is allowed as a deduction. In the case of company retention, the difference in the FMV of the commercial use and conservation use may be treated as a loss. In both cases there are rules and limitations that need to be considered by tax advisors.

Property tax savings are less complicated to understand. Property classified as commercial use has a higher tax basis than conservation property. Typically, county tax districts apply a nominal charge to properties if held by a taxable entity or zero to a qualified nonprofit. The value of the savings is the current value of the sum of future payments or net present value (NPV). The following example illustrates this calculation.

Basic Assumptions (these values need to be supplied by owner)

FMV as Commercial Property	50,000 (\$/acre)	Commercial Property Tax Rate	1,500 (\$/acre)
FMV as Conservation Property	19,000 (\$/acre)	Conservation Property Tax Rate	1 (\$/acre)
Total Acres Available	70 (acres)	Cost of Capital	9%
Corporate Income Tax Rate	37% (State and Federal)		

Calculated Values - of property reclassification from commercial to conservation use

Alternate 1 - Donate property to non profit for them to reclassify as conservation property

Value of Donated Property	3,500,000
Tax benefit of Donation	1,295,000

Alternate 2 - Hold onto property, but reclassify as conservation property

Impairment due to Reclassification	2,170,000
Reclassification tax benefit	802,900

Calculated Values - of property tax savings due to reclassification from commercial to conservation use

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Annual property tax savings	104,930	104,930	104,930	104,930	104,930	104,930	104,930	104,930	104,930	104,930
NPV _(at cost of capital)	734,011									

Total Calculated Values of property reclassification and property tax savings

Alternative 1	2,029,011
Alternative 2	1,536,911