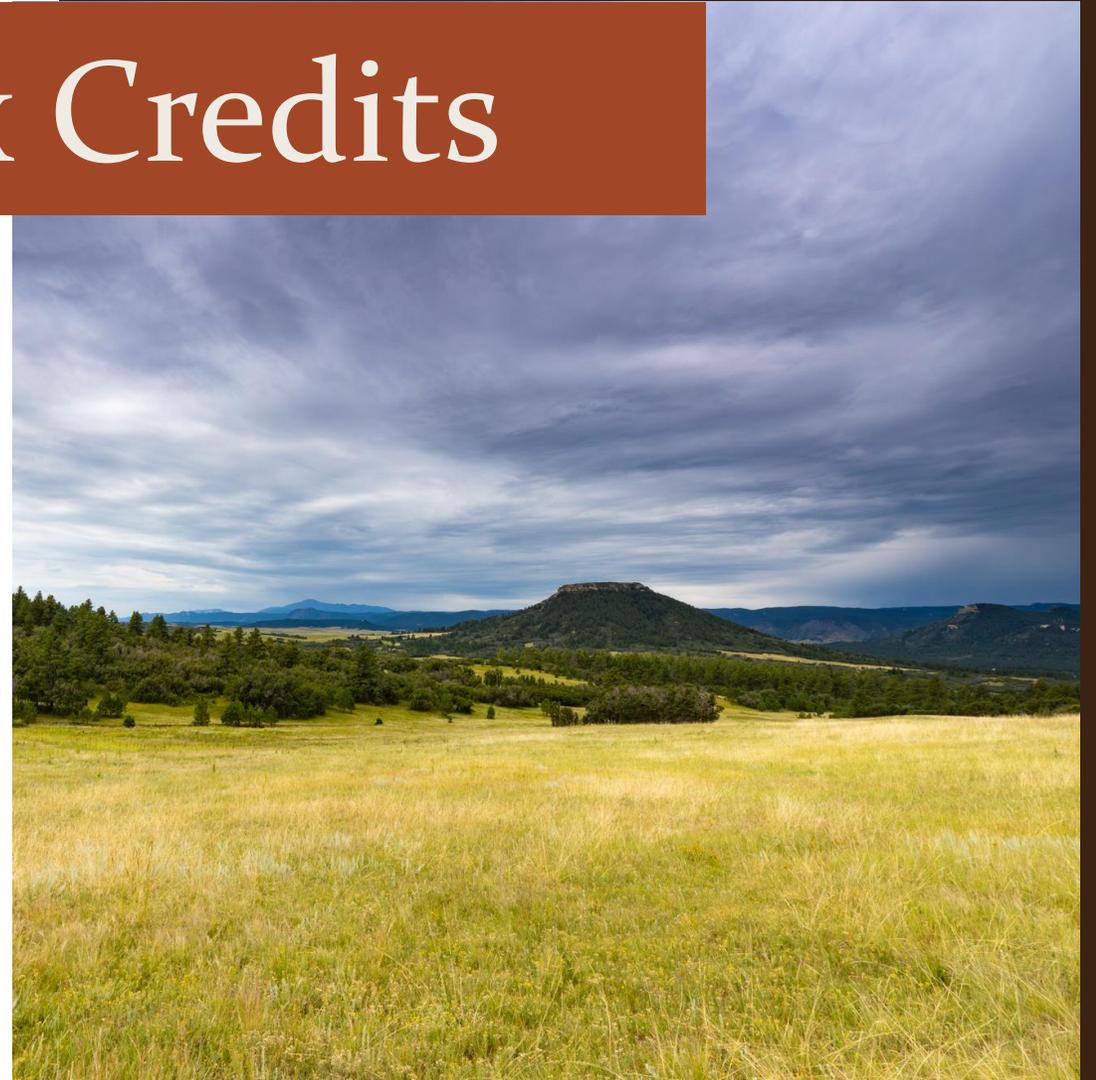


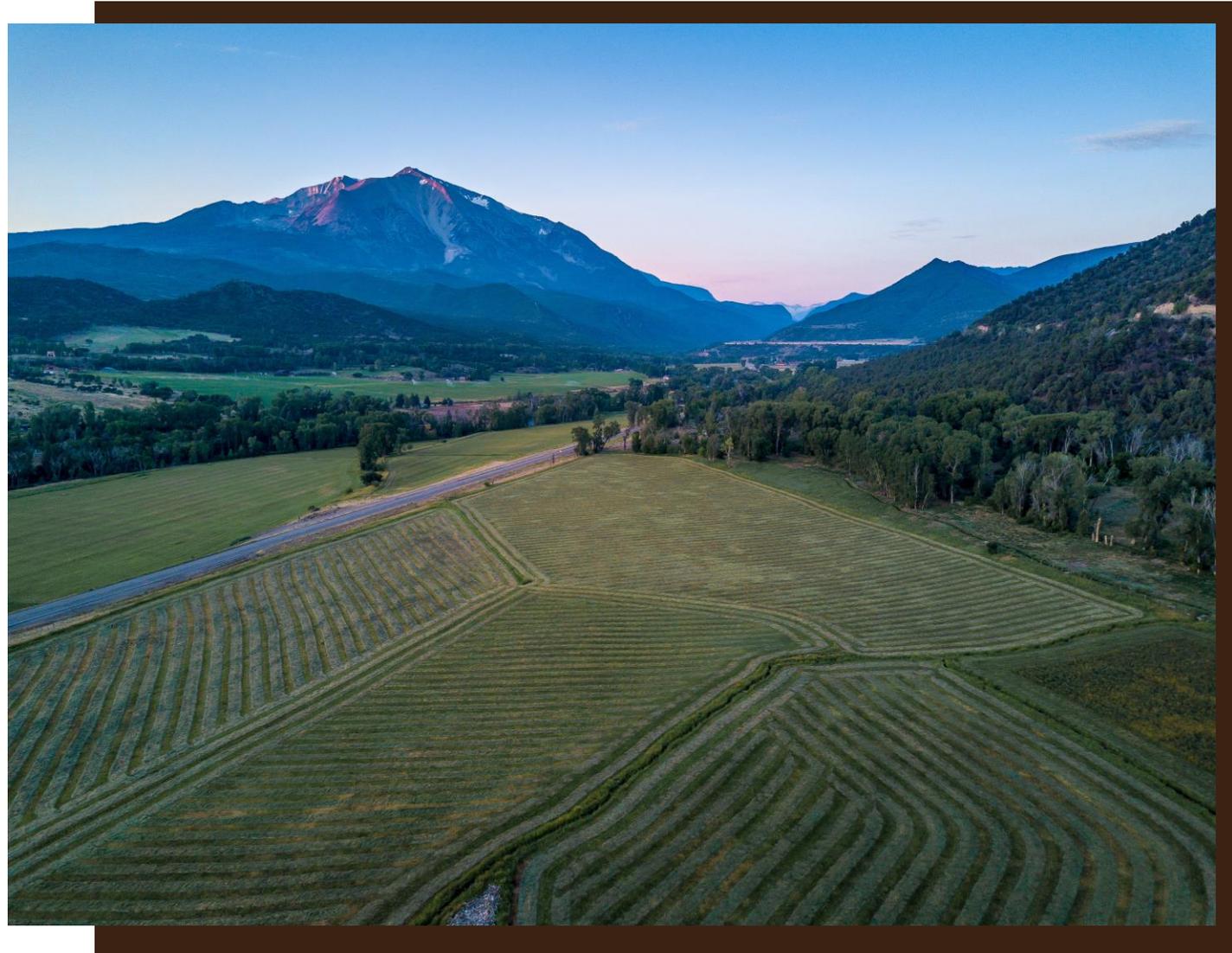
Conservation Tax Credits

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Conservation Easement Tax Credits

- What is a Conservation Easement Tax Credit?
- Colorado's Conservation Easement Tax Credit
 - CE Donor Example
 - History of the Program
- Virginia Conservation Tax Credit
- Lessons Learned for Building and Maintaining Programs
- Looking Ahead



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- Credit is different than a deduction; deductions reduce tax liability by the amount of deduction times the tax rate
 - Credit is subtracted directly from one's tax liability; reduces tax liability dollar-for-dollar

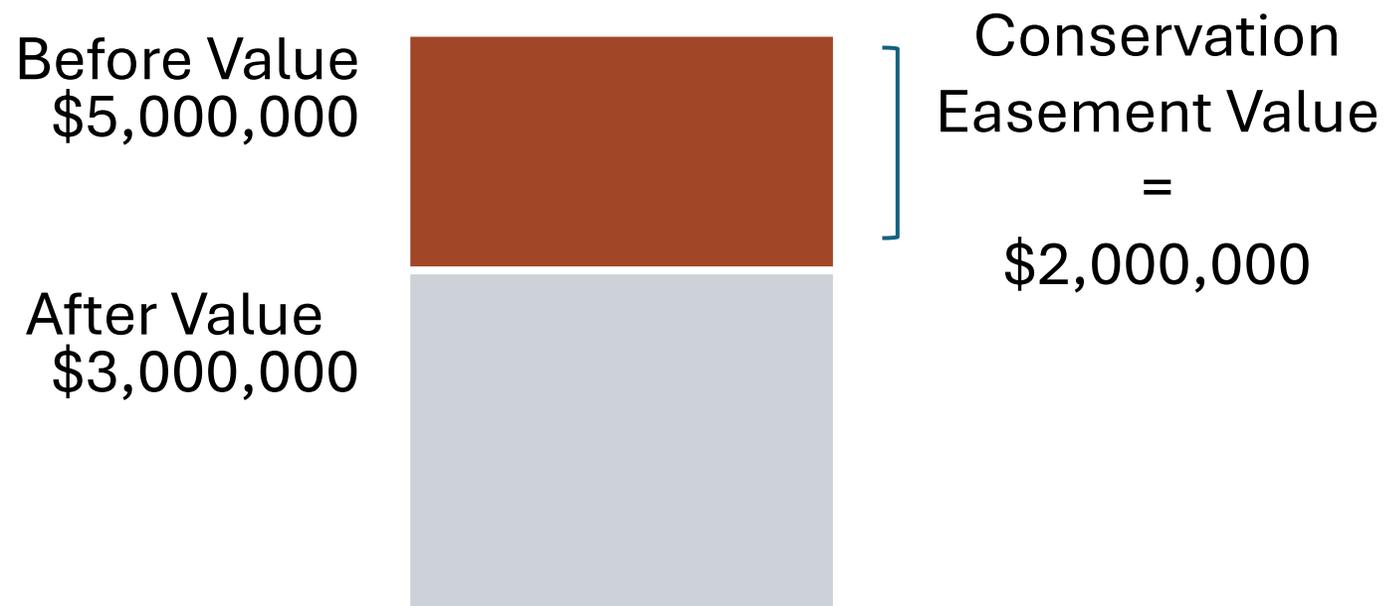
What is a Conservation Easement Tax Credit?



Colorado Tax Credits – The Basics

- \$50M per year
- Maximum Amount is \$5,000,000/transaction
 - Amount of credit is calculated at 90% of easement value
- Maximum credit that can be issued per tax year is \$1,500,000
 - Donors may receive multiple years of tax credit certificates
- **Credits are transferrable**
- Credits are typically sold for between \$0.85 and \$0.90/credit

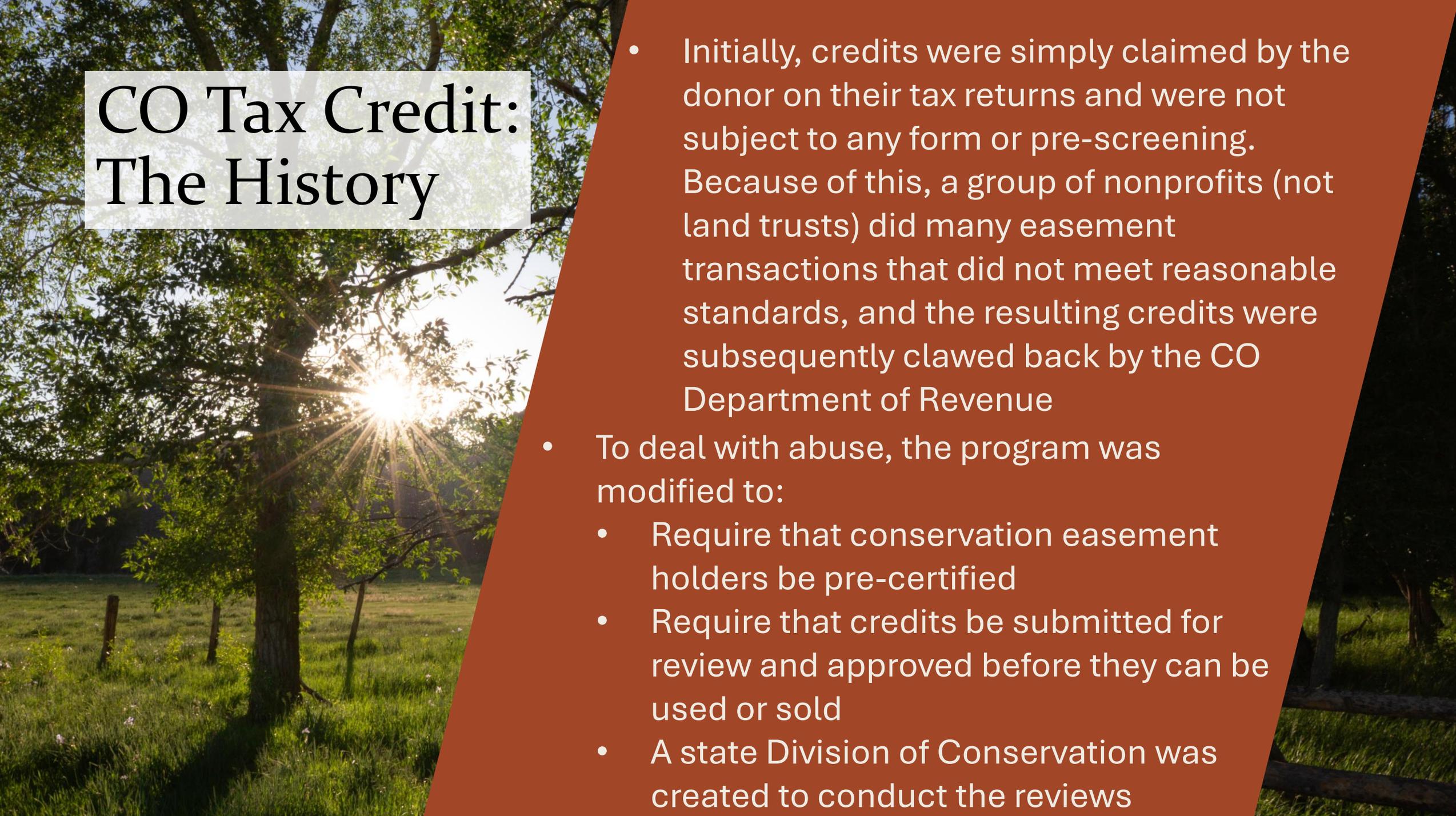
Conservation Easement Tax Credit Example



- Conservation Easement Value:
 - \$2,000,000
- Total Tax Credit Available to Donor:
 - $\$2,000,000 * 90\% = \$1,800,000$
- Tax Credit Certificates Issued to Donor:
 - 2025 = \$1,500,000
 - 2026 = \$300,000
- Return to Donor for Sale/Transfer of Credits:
 - $\$1,800,000 * \$0.85 - \$0.90 =$
\$1,530,000 to \$1,620,000
- Federal Deduction for remaining 10%
- Impact of future year's credits on pricing

CO Tax Credit: The History

- Program started in the 1990s with a credit that was 50% of the amount of the conservation easement donation, but was not transferable
- In 2000, a republican legislator from an ag district felt that the credits could not typically be used by farmers and ranchers, so passed legislation to make the credits transferable to third parties
- Once the credits were transferable, the program grew dramatically, and within several years there were several hundred conservation easement donations occurring per year for which credits were claimed



CO Tax Credit: The History

- Initially, credits were simply claimed by the donor on their tax returns and were not subject to any form or pre-screening. Because of this, a group of nonprofits (not land trusts) did many easement transactions that did not meet reasonable standards, and the resulting credits were subsequently clawed back by the CO Department of Revenue
- To deal with abuse, the program was modified to:
 - Require that conservation easement holders be pre-certified
 - Require that credits be submitted for review and approved before they can be used or sold
 - A state Division of Conservation was created to conduct the reviews

Growth of the CO Tax Credit Program

Table 1. Formulae and caps for Colorado's Conservation Easement Tax Credit Program.

Tax Year	Formula for calculating tax credit for the donated (uncompensated) portion of conservation easement	Tax Credit Cap Per donation	Annual Program Cap
2000-02	100% of FMV	\$100,000	No cap
2003-06	100% of the first \$100,000 of FMV, plus 40% of any remaining FMV	\$260,000	No cap
2007-10	50% of FMV	\$375,000	No cap
2011-12	50% of FMV	\$375,000	\$22,000,000
2013	50% of FMV	\$375,000	\$34,000,000
2014	50% of FMV	\$375,000	\$45,000,000
2015-16	75% of the first \$100,000 of FMV, plus 50% of any remaining FMV	\$1,500,000	\$45,000,000
2017-20	75% of the first \$100,000 of FMV, plus 50% of the next \$4,900,000. The payments issued cannot exceed \$1,500,000 per year, so more valuable easements are paid out in \$1.5 m increments.	\$5,000,000	\$45,000,000
2021-present	90% of FMV up to a maximum of \$5,000,000 per donation	\$5,000,000	\$45,000,000

- **Annual Program Cap**
- **Tax credit Cap per Donation**
- **Formula for Calculating Tax Credit as % of Donation**

CO Tax Credit: The Results

- 2.3 million acres conserved since 2000
 - 200,000 acres of priority sage grouse (Gunnison and Greater) habitat
 - 1 million acres of winter range for elk and mule deer
 - 449,220 acres of prime farmland
 - 50 miles of Gold Medal Streams
- CO has forgone more than \$641M in revenue since 2000 through the tax credit program
 - This has resulted in no less than \$35 billion in cumulative public benefit to the citizens of Colorado
 - ROI: For every \$1 of tax revenue the state of Colorado forgoes as part of the easement tax credit program, the state receives up to \$49 in return via public benefits (cite: Colorado State University, 2023)
- 33% of conservation easements were completed in disadvantaged census tracts; 51% of the acres under conservation easements are in disadvantaged census tracts.

Virginia Land Preservation Tax Credit

- Started several years after Colorado
- No Transaction Cap
 - Largest single credit ever was \$34M
- Has a 5% transfer fee, used for administration of program
- Uses informal appraisal review which has evolved into operating like Colorado's
- Earns Credits at 40% (down from original 50%)
- Total state cap of \$75M per year...has protected over 1M acres





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Advocacy: Advancing Colorado's CE Tax Credit

CCALT's Tax Credit Transfer Facilitation Program

- Maintain relationship with producer/easement donor
- Increase financial returns to easement donors
- New source of revenue for the land trust
- Building a new program:
 - Risks
 - Resources
 - Technical Expertise



Elements for Potential Agricultural Focused CE Tax Credits

- Tied to IRS definition of Full Time Farmer
- Could have preference for new agricultural owners
- Could have transfer fee that is used to promote program goals (rather than admin)
- Could have Loan Fund for advance on credit proceeds
- Loan fund could allow first time farmers to receive advance, which could be used for purchase of first land.



ccalt.org



Brendan Boepple

Director of Conservation
Colorado Cattlemen's
Agricultural Land Trust
brendan@ccalt.org

Mike Strugar

Founder, Director
Conservation Resource
Center
taxcreditexchange.com

