Centre County Farmland Trust

Tax Incentives for Farmland Preservation

A Federal tax incentive for conservation easement donations has helped thousands of landowners to conserve their land. If you own land with important natural or historic resources, donating a conservation easement can be one of the smartest ways to conserve the land you love, while maintaining private property rights and possibly realizing significant federal tax benefits.

This incentive was made permanent on December 18, 2015.

How does the enhanced easement incentive change the law for conservation donations?
The enhanced easement incentive:

- Raises the deduction a donor can take for donating a conservation easement from 30% of their adjusted gross income in any year to 50%;
- Allows qualifying farmers and ranchers to deduct up to 100% of their adjusted gross income; and Extends the carry-forward period for a donor to take tax deductions for voluntary conservation agreements to 15 years (in addition to the year of donation).

Can you give me an example?
Without the enhanced easement incentive, a landowner earning $50,000 a year who donated a $1 million conservation easement could take a $15,000 deduction for the year of the donation and for an additional 5 years – a total of $90,000 in tax deductions.

The enhanced easement deduction allows that landowner to deduct $25,000 for the year of the donation and then for an additional 15 years. That's $400,000 in deductions. If the landowner qualifies as a farmer or rancher, they can zero out their taxes. In that case, they could take a maximum of $800,000 in deductions for their million dollar gift.

Can anyone deduct more than the value of their gift?
One can never deduct more than the fair market value of the gift. This change simply allows landowners who previously could not deduct the full value of their gift to deduct more of that value.

Who qualifies as a farmer or rancher?
The enhanced easement incentive defines a farmer or rancher as someone who receives more than 50% of their income from "the trade or business of farming". The law references an estate tax provision (Internal Revenue Code (IRC) 2032A(e)(5)) to define activities that count as farming. Specifically, those activities include:

- cultivating the soil or raising or harvesting any agricultural or horticultural commodity (including the raising, shearing, feeding, caring for, training, and management of animals) on a farm;
- handling, drying, packing, grading, or storing on a farm any agricultural or horticultural commodity in its unmanufactured state, but only if the owner, tenant, or operator of the farm regularly produces more than one-half of the commodity so treated; and
- the planting, cultivating, caring for, or cutting of trees, or the preparation (other than milling) of trees for market.

The qualified farmer or rancher provision also applies to farmers who are organized as C corporations. For an easement to qualify for the special treatment, it must contain a restriction requiring that the land remain "available for agriculture".

Adapted from the Land Trust Alliance
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For more information visit **CentreCountyFarmlandTrust.org**