Donated Easements

Interested landowners have the option of donating an easement to a local land trust or to the Maryland Environmental Trust (MET). The main reason landowners donate a conservation easement is because they want to preserve the natural open space, habitat, and agricultural value of their land forever. A conservation easement donation may also qualify a landowner for significant income tax deductions, income tax credits, and estate tax savings.

Federal and State Income Tax Deduction
Donation of a conservation easement constitutes a charitable gift that can be deducted by the landowner for federal and state income tax purposes. To qualify for this income tax deduction, the easement must be granted in perpetuity, be donated to a qualified organization (a local land trust or MET), and must serve one or more conservation purposes recognized in Section 170(h) of the tax code. If a landowner donates an easement that meets IRS rules, they are able to claim a charitable donation of up to 50 percent of their adjusted gross income for that year. Excess deductible amounts can be carried forward for 15 additional years or until the total value of the easement has been claimed, whichever comes first. The value of the easement equals the difference between the fair market value of the property before and after the easement is established. The fair market value of the easement must be substantiated by a qualified appraiser in order to claim this tax deduction.

State Income Tax Credit
Maryland law allows a tax credit to be claimed on state income taxes by an individual who donates a conservation easement. To qualify for this state income tax credit, the easement must be donated to MET or co-held by MET and a local land trust. The credit is capped at $5,000 yearly for each individual owner of the property upon which the easement is donated. Each owner of an undivided interest in the property may be eligible to take this state income tax credit. Tax advantages may differ between individual landowners, institutions, and other legal entities. Generally, if there are two owners of a property, both may claim a $5,000 annual credit. This credit can be carried forward for 15 additional years or until the total appraised amount of the easement has been claimed, whichever comes first. The value of the easement equals the difference between the fair market value of the property before and after the easement is established. The fair market value of the easement must be substantiated by a qualified appraiser in order to claim this tax credit. The landowner may not claim a state income tax deduction and a state income tax credit for the same easement donation.

Estate Tax Reduction
Estate taxes often make it difficult for heirs to keep land intact because of the high development value of the land and high estate taxes. In these cases, heirs often have to subdivide or sell the land in order to pay the estate taxes, which may not be the desire of the deceased landowner or their heirs. A conservation easement helps alleviate the situation by reducing the value of the estate to be taxed. The value of the estate is reduced by the value of the easement. The value of the easement equals the difference between the fair market value of the property before and after the easement is established. The fair market value of the easement must be substantiated by a qualified appraiser. Estate taxes are lowered as a result of this reduction, as the heirs will only have to pay estate taxes on the conserved value, not the full development value, of the property.

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Estate Tax Exclusion

Additionally, heirs can exclude 40% of the conserved land value, capped at $500,000, from estate taxes. For example, if the land value before the conservation easement is $1.5 million, and the land value after the easement is $1 million, an additional $400,000 (40% of the conserved land value) can be excluded from the taxable estate. To qualify for this estate tax exclusion, the easement must serve one or more conservation purposes recognized in Section 170(h) of the tax code, must limit commercial recreational use to a minimum, and cannot qualify solely for the purpose of historic preservation. Only members of the original easement donor's family, including spouses and descendants, can claim this exclusion.

The information contained in this document is only an overview of major Internal Revenue Code requirements, Treasury Regulations, and associated guidance documents as they relate to easement valuations and appraisals. Complex tax concepts have been greatly simplified. This is not a comprehensive list or explanation of all requirements for obtaining federal or state tax benefits. The Baltimore County Land Trust Coalition cannot guarantee the deductibility of a conservation easement donation. Obtaining detailed guidance will require consultation with an attorney, accountant, and/or financial advisor.

For more information or additional resources, please email admin@bcltc.org.