



TURNING CONSERVATION EASEMENT TAX CREDITS INTO CASH: WHAT SHOULD I EXPECT?

Once you have preserved your land with a conservation easement, you might be wondering exactly how you will turn the conservation easement income tax credits you received into cash. Below is a quick overview of how the tax credits are calculated and what to expect when you work with a tax credit broker.

The value of conservation easement income tax credits is based on a qualified appraisal of how much value you are giving up by permanently restricting the use of your land. For example, if your property was worth \$3 million as a potential subdivision (what could be done today), but is only worth \$2 million as farmland and a house site (use allowed after the conservation easement), the donation value would be the difference between the two, or \$1 million. You will earn tax credits worth 75% of the first \$100,000 and 50% of the remaining donation up to a cap of \$5 million for a single conservation easement donation, which will be issued in increments of \$1.5M each year until the credit is fully issued. Using our example, your tax credits would total \$525,000 (75% of \$100,000 and 50% of the remaining \$900,000 donation value). You can use your tax credits toward your state income tax liability for up to 20 years.

If you can't use all of your credits yourself, you have the option of selling all or some of your credits through a tax credit broker to receive cash for your credits. You will receive 85% of the face value of the credit. So, for a \$100,000 tax credit sale, you would receive a check for \$85,000.

Register with a tax credit broker early so you will be given top priority for getting your tax credits sold. Credits can be sold as late as the following October 15th to be used against the prior year's taxes, but the donation has to be completed by December 31st. Tax credit brokers typically review all of the documents regarding the donation of the conservation easement, such as the appraisal, deed of conservation easement, title work, mineral reports, IRS Form 8283, and any other documents that may be required based on your particular circumstances. So, be prepared to send copies to them. A good tax credit broker will work with you to fix any problems that may arise. Once they determine that your donation follows all the rules, they will help you secure a Tax Credit Certificate from the state. Then your tax credit broker will match you up with a Colorado taxpayer who is interested in saving money on their taxes by buying your credits.

In addition to finding a buyer for your credits, the tax credit broker will prepare sales documents for you and the buyer to sign. One standard provision is that if the donation is ever challenged by the IRS or the state of Colorado, you will pay back any expenses the buyer incurs from the credits being reduced or disallowed; therefore, it is important to work with only the best team of professionals and to hire a broker who will carefully review your documents. For guidance in hiring your professional team, give us a call or visit our website www.taxcreditconnection.com and we will gladly get you started on the right path.

After the documents are signed by you and the buyer of your credits, the tax credit broker will send you a check for the sale of your tax credits. This is the part that makes all of the work worthwhile!

For more information, please contact:

Tax Credit Connection, Inc.

Ariel Steele • Owner • 303 827 5851 • ariel@taxcreditconnection.com

Mailing Address: P.O. Box 1361 • Physical Address: 328 Massachusetts Ave, Berthoud CO 80513

www.taxcreditconnection.com

This information is not intended to be legal or financial advice. Please consult your own advisor.