

NEW MEXICO LAND CONSERVANCY

Conserving Land. Preserving Heritage.



For Love of the Land—

Benefits of Conservation Easements in your Succession Planning

*“... it is the convergence of a vision
for the land with the right
incentives where a landowner
shapes his or her legacy.”*

www.nmlandconservancy.org



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New Mexico Land Conservancy (NMLC) is an accredited, statewide, nonprofit land trust dedicated to helping people protect the lands they love through the innovative use of conservation easements.

Conservation easements can offer landowners several **financial incentives** including cash payments, federal tax deductions, state tax credits and state tax credit sales.

Conservation Easements FAQs:

- Every conservation easement is voluntary, and uniquely tailored to serve your specific vision and needs.
- With agricultural conservation easements, the main purpose is to continue to allow compatible uses including growing crops, raising cattle, managed timber harvesting, hunting and fishing, and other uses.
- Landowners sometimes choose to reserve homesites for future development for their children, ranch employees or their retirement.
- Conservation easements do not involve government regulation at any level, not even at the local zoning level. They are a voluntary, free-market technique that provides tax and financial incentives in exchange for giving up certain land use rights. Conservation easements are not a “taking” like a condemnation for a road right of way.
- You still own the land – and all that ownership entails. Landowners can sell their farm or ranch at anytime for whatever price they can get on the open market. While the easement typically reduces the value of the subject land at a rate equal to the value of the development rights being restricted, the easement does not freeze the value of the subject land. In addition, conservation easements can actually increase the value of any residual, adjacent land that a landowner chooses not to place under an easement.

For more info, call us at
(505) 986-3801



Land conservation can play a key role in your succession planning

Whether you're a newer landowner or a sixth generation rancher here in the Southwest, chances are that you're deeply connected to your land.

Conservation easements can benefit landowners in a variety of ways – by helping to carry forward your vision for the land and by providing tax incentives and financial benefits that can help preserve your legacy for generations to come.



New Mexico: Our mission. Your legacy.

The role of conservation easements in your succession planning

Conservation easements are a proven strategy for effective succession planning for many landowners. Ask any of the 90+ landowners we currently hold easements for, protecting more than 250,000 acres of working land in New Mexico.

Land conservation means different things to different landowners. For some, it's as uncomplicated as wanting to protect their agricultural or family land heritage and their ability to farm or ranch.

In successional planning, there are two aspects of a conservation easement to consider: conservation of the land itself, and the financial incentives earned from protecting your farm or ranch.

- **Protect your vision.** Conservation easements offer you the opportunity, ahead of time, to think through what's important to you, and what land legacy you and your family or stakeholders want to leave for future generations. Keep in mind that once the land is developed, there's no going back – that working land is gone, along with the associated water rights tied to agricultural use. Conservation easements help ensure that your personal vision for your land will be protected in perpetuity.

- **Protect your investment.** Conservation easements ensure that all the money and hard work you've put into your property over the years to improve its productivity will be safe from development or disturbance in the future.

- **Federal tax deduction** – Specifically for ranchers and farmers who earn a living from the land, the federal tax deduction for a donated easement is **as high as 100%** (vs. the standard 50%) of your AGI, spread over as many as 16 years.

- **Sale of NM state tax credits resulting in cash** is perhaps at the heart of succession planning for many landowners. This influx of capital can help ranchers make important, even necessary, improvements to the property, or, help buy out family members or future heirs who are not interested in pursuing a living on the land, thereby enabling the other family members to keep the ranch intact and agriculturally productive. The sale of tax credits can also pay off debt to keep the property "in the family." (*see example at right.*)

- **As a hedge against estate taxes:** Conservation easements lower the overall assessed value of the land, typically resulting in significantly lower estate taxes, which often helps heirs be able to cover those taxes when that time comes, without having to sell off portions or all of the property.

For more info, visit our website ("For Landowners" section).

An example of how the CE numbers works:

Say you have a 2,000-acre ranch, appraised at \$500/acre for a total value of \$1 million. Since a conservation easement limits future development, the value of the property with the easement in place is reduced or diminished by some percentage as determined by an appraiser. This 'diminution' rate determines the value of your donation, or in other words, the conservation easement (CE) value.

In our example, let's use a diminution rate of 50%, equal to \$500,000. When the easement is then donated to a nonprofit land trust (NMLC), the CE value (\$500,000) is deductible from your federal income tax.

In addition, if the easement qualifies for a NM state tax credit, a landowner will also receive either a tax credit worth half the CE value, up to \$250,000 (\$500,000 if both husband and wife own the property) OR, the landowners can sell that tax credit for 80% of its value, or \$200,000 in cash per our example (\$400,000 cash if both husband and wife own the property).

Since the **annual** tax credit cap is \$250,000 (\$500,000 for joint ownership), some ranchers with larger properties place easements over their ranches in phases across several years, each phase calculated to maximize the total number of tax credits a landowner can receive based on their property's size and value.

There are costs associated with conservation easements, which also have to be factored into the total calculation.

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