The tax implications of granting a conservation easement are complex and vary between jurisdictions and with individual circumstances. This information sheet is not intended to be comprehensive, nor to replace the expert advice you will need that is specific to your situation. For a broader description of conservation easements and a list of publications, organizations and agencies that can help you further, see SALTS' booklet, "Conservation Easements: A Landowner's Guide."

The Southern Alberta Land Trust Society (SALTS) is a charitable, non-profit organization dedicated to preserving the environmental, productive, scenic, and cultural values of Alberta's foothill and prairie regions. For more information about the Southern Alberta Land Trust Society and its work contact:

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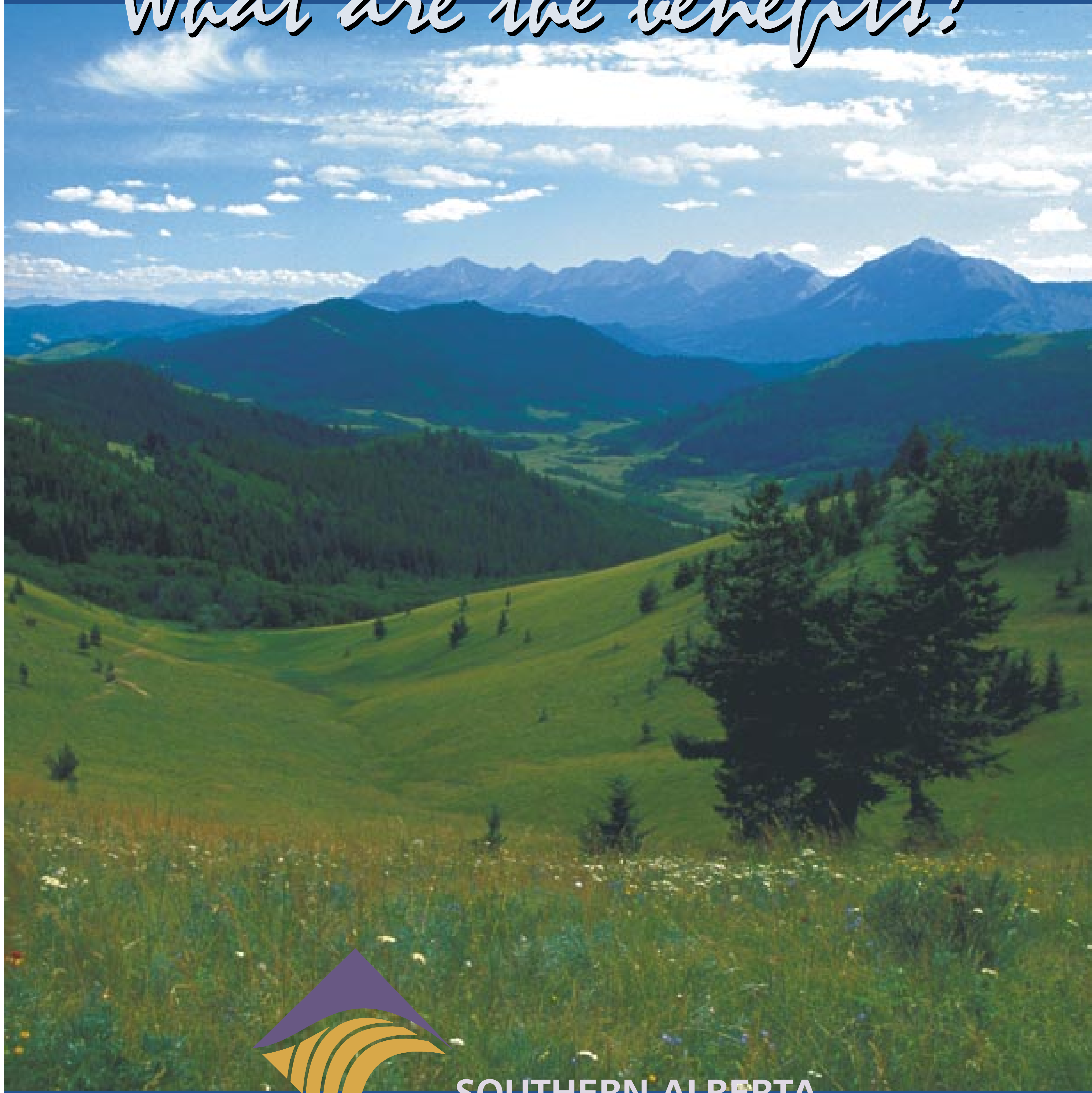
Conservation Easements and Income Tax

What are the benefits?



SOUTHERN ALBERTA
LAND TRUST SOCIETY

Introduction

Conservation easements offer a private sector solution to the problem of vanishing ranchlands and natural habitats. They are tools which individuals and communities can use to ensure the availability of unbroken landscapes and natural areas for future generations. A conservation easement is a voluntary agreement between a landowner and a qualified organization (such as the Southern Alberta Land Trust Society) which limits the amount and type of development which can occur on a property in order to preserve its natural character and agricultural potential.

One very attractive aspect of conservation easements is the significant income tax benefits that can be gained by granting one, and the ability to use those benefits as retirement and estate planning tools. This information sheet briefly outlines how you calculate those benefits, and provides an example to illustrate how a conservation easement could work for you.

Calculating the income tax benefits of a conservation easement

If you donate a conservation easement, there are four basic steps in determining the effect on your income taxes:

1. Determine the Fair Market Value
The Canada Customs and Revenue Agency (CCRA) accepts the "before and after" approach for calculating the Fair Market Value of a conservation easement. The value of the property with no conservation easement on it is calculated. Then the value of that property with the conservation easement is calculated (i.e., the value of the property after the landowner has voluntarily relinquished certain rights such as the right to subdivide). The difference is deemed to be the fair market value of the conservation easement. The appraisal is then sent to the CCRA's Appraisal Review Panel for certification.

2. Calculate your capital gain
In order to calculate your tax benefit, you need first to know the effect of the donation on your capital gains. The Income Tax Act assumes that you have accrued a capital gain from the disposition of the easement, even if that 'disposition' was a donation. Fortunately, the tax deduction will more than make up for that.

To calculate the capital gain resulting from the easement, take the fair market value as described above. From that subtract the Adjusted Cost Base (in general this is the price you originally paid for the easement property) and the expenses of 'disposing' of the easement property.

3. Calculate your reported income
The income you report would then be your regular income plus your taxable capital gain. The taxable capital gain is one quarter (¼) of the capital gain as calculated above, provided that the easement donation has been certified as a gift of Ecologically Sensitive Land by Environment Canada or one of its designates. If the easement has not been certified, or is being sold rather than donated, the taxable portion of the capital gain is one half (½).

4. Calculate your tax deduction or non-refundable tax credit
If you have donated a conservation easement, you will be eligible for a federal income tax receipt based on the fair market value of the easement. The annual donation limit is equal to 100% of your income, provided that the donation has been certified as a gift of Ecologically Sensitive land.

If the donor is incorporated, this amount is deducted from the corporation's income. If the donor is an individual, this amount is used to calculate a non-refundable tax credit. For both, any portion of the receipt which is unused in the first year can be carried forward for as many as 5 additional years.

An example
Using some sample numbers, the income tax benefit could be calculated in this way:

Calculation	Sample numbers	Notes
Fair market value (FMV) of conservation easement	$950,000 - 600,000 = **$350,000**	• FMV of property before easement minus FMV of property after easement
Calculation gain calculation	$350,000 - 145,000 - 5,000 = **$200,000**	Assume: • adjusted cost base of $145,000 • costs of disposition of $5000 • no other capital gains, nor exemptions
Taxable capital gain	= **$50,000**	• 25% of capital gain related to the conservation easement
Reported income for the year	$50,000 + 50,000 = **$100,000**	• regular income of $50,000 plus *taxable* capital gain
Annual donation limit in the first year	= **$100,000**	• assumes the donation has been certified as a gift of Ecologically Sensitive Land
Individual donor's non-refundable tax credit	$100,000 x 29% = **$29,000**	• any unused portion can be used in as many as 5 successive years until the entire receipt is used up

Successive tax years
As the entire receipt was not used in the first year, the donor can carry forward the remainder for as many as five years. Assuming the donor's income stays at $50,000 per year, the entire calculation would look like this:

Tax year	Annual donation limit	Unused donation available	Federal charitable tax credit
Year 1*	$100,000	$350,000	$29,000
Year 2	$50,000	$250,000	$14,500
Year 3	$50,000	$200,000	$14,500
Year 4	$50,000	$150,000	$14,500
Year 5	$50,000	$100,000	$14,500
Year 6	$50,000	$50,000	$14,500
Total tax credits			**$101,500**

**As calculated above*