

Conservation Land Donation Tax Estimator

An Introductory Webinar



CORVUSCENTRE
for Conservation Policy

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corvus.ca



CORVUSCENTRE
for Conservation Policy

Applying Research for Conservation Solutions

corvus.ca

We're a not-for-profit, charitable research organization

We focus on how decision making affects biodiversity and nature conservation

We do that by undertaking applied research, program facilitation, and knowledge mobilization.

OUR SUPPORTERS

This project was made possible due to the generous support of



Today's webinar

- Introduction
- Conservation land and easement donations
- What's different between the provinces, what's the same
- The Tax Estimator
- Walk through
- Questions

Tax Estimator | Corvus Centre

TAX STATEMENT FOR YEAR 2019
THE STATE OF REPORTS 1099-BIT
DEPARTMENT OF THE TREASURY-INTERNAL REVENUE SERVICE
CONTRIBUTOR RECIPIENT
MILEAGE LOG

Conservation Land Donation Tax Estimator

"What are the income *tax implications* of donating a *conservation easement* or a conservation land *parcel in fee simple*?"

That's a critical first question for landowners considering conserving the natural features of the land they own and steward. But it's complex, and specific to each individual landowner.

The Conservation Land Donation Tax Estimator was created to give landowners a preliminary sense of this question

This tool takes in basic information about a conservation land donation and returns realistic estimates of the taxable income, tax credits, taxes payable, and tax receipt carry forward

Start Using the Tax Estimator

DOWNLOAD THE TOOL

- The Conservation Land Donation Tax Estimator is a *simplified Excel* spreadsheet file, but you don't need to be an 'Excel Expert' to operate it!
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INTRODUCTION



Disclaimer

- I am not a lawyer nor an accountant
- As importantly, I am not YOUR accountant
- The tool we created is an Estimator, not a calculator
- Only a tax, financial, and/or accounting advisor knows a given landowner's full circumstance
- The Estimator cannot give you a definitive picture



DISCLAIMER

Why we created this tool

- Financial and tax implications one of the most important factors in landowner's decision to donate land or a conservation easement
- Getting even a rough idea of this requires very detailed, very personal information
- That's not usually a topic for the first meeting at the kitchen table!



Who it is designed for

Landowners

- Any landowner, with even a basic grasp of their financial circumstances, can enter the necessary numbers
- They can then get an 'approximation' that tells them if this is even feasible

Land trusts

- Land trust personnel can get a picture of the tax and financial implications of various scenarios
- Can run landowner scenarios to show landowners the possibilities
- Can compare scenarios and determine what impact various 'tweaks' would have

The power of this tool

Basic Information

The ability to get estimated values for a given land or easement donation circumstance

Scenarios

The ability to compare different mixes of donation factors



CONSERVATION LAND AND CONSERVATION EASEMENT DONATIONS

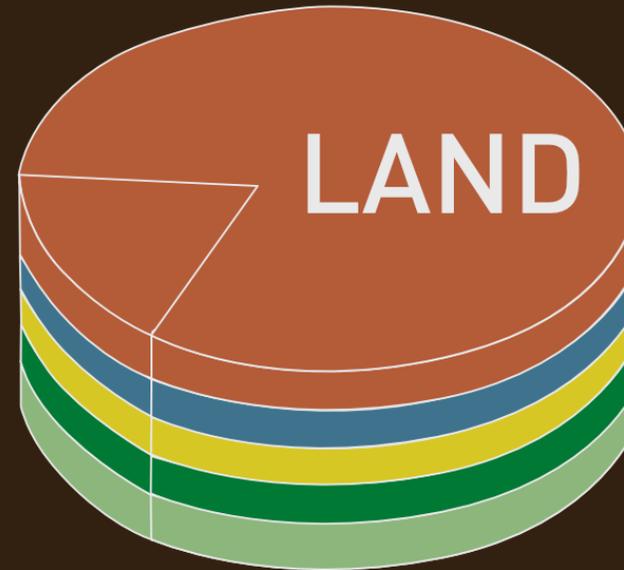
Making a donation to a qualified organization

- Using a charitable tax receipt (official donation receipt)
 - Receipt is used to calculate "Non-refundable tax credit"
 - Tax payable is calculated
 - Deduction applied
 - Remainder is carried forward
- Slightly different for corporations, but not going into that right now



Not like a 'Stewardship Payment' or 'PES Program'

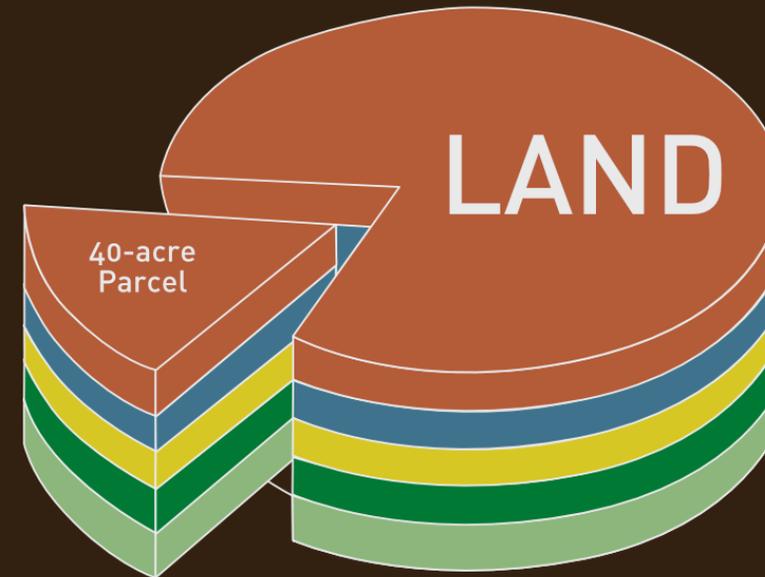
- "Disposition" of land or an interest in land
 - Fee-simple is 'disposition' of parcel
 - Conservation easement is 'disposition' of an interest in land



CONSERVATION LAND AND CONSERVATION EASEMENT DONATIONS

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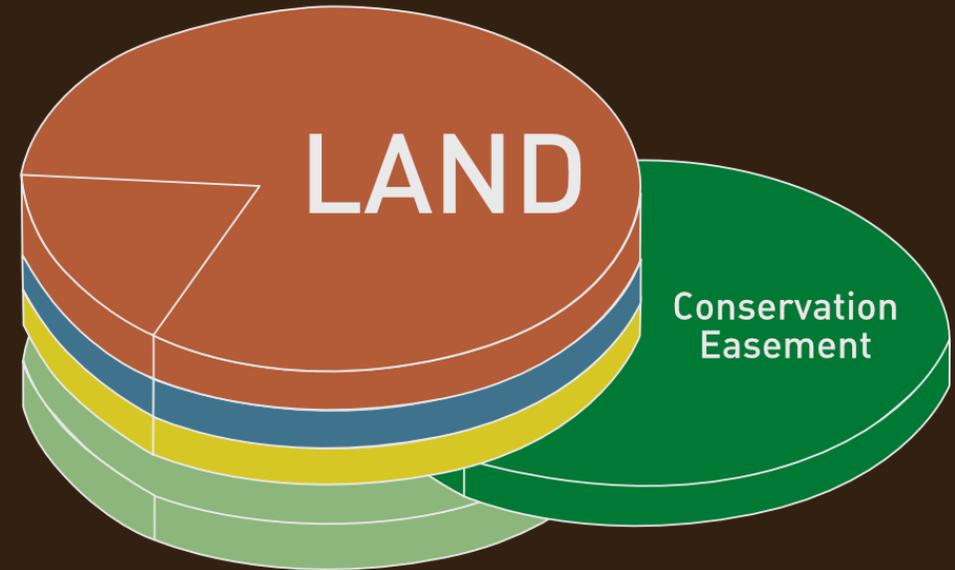
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Not like a 'Stewardship Payment' or 'PES Program'

- Not arbitrary – professionally assessed Fair Market Value
 - Full compensation of market-appraised value
 - Tax receipt, cash, or combination
- Not a "tax benefit" or "tax advantage" or a "payment program"
 - It's a payment for disposition of land – nothing more, nothing less

"Why don't you get paid every year?"

You dispose of it once; you get compensated once

Capital Gains and Taxes

"Why do you pay capital gains taxes on a gift?"

You don't
But you do have to pay
accumulated back taxes

Capital Gains

Current Value (FMV)
of your Capital Property



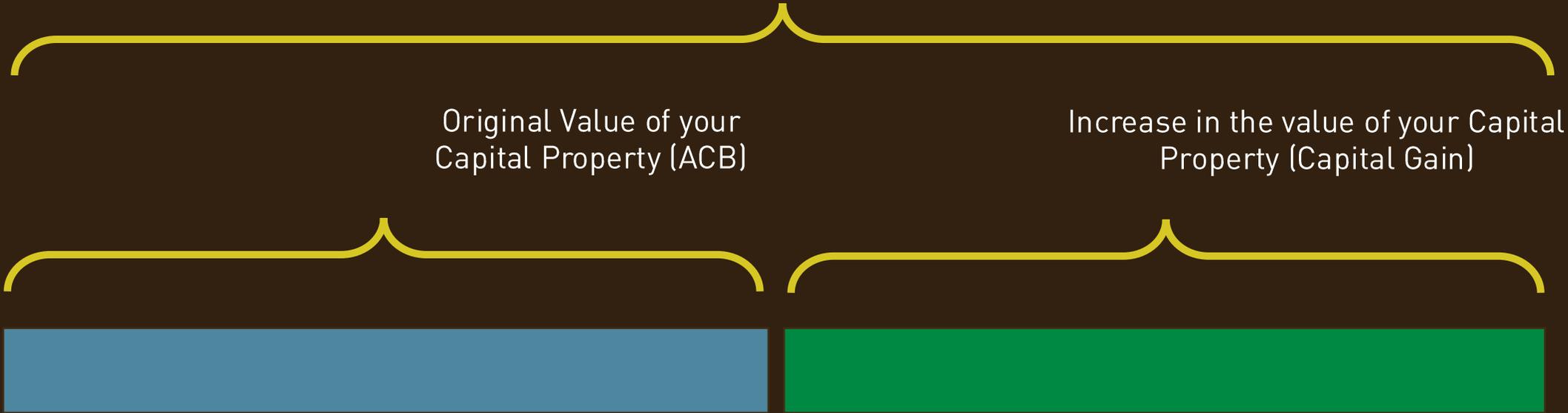
CONSERVATION LAND AND CONSERVATION EASEMENT DONATIONS

Capital Gains

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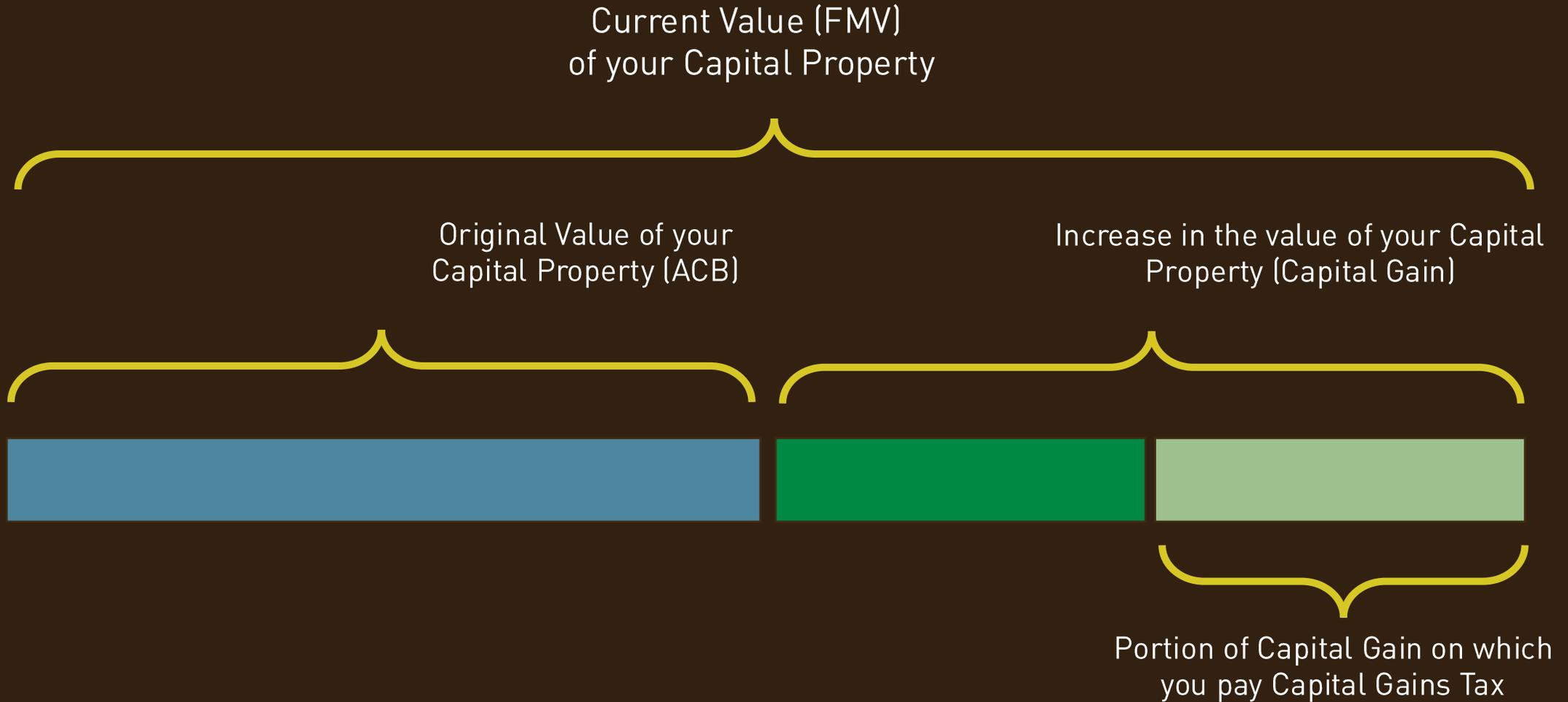
Original Value of your
Capital Property (ACB)

Increase in the value of your Capital
Property (Capital Gain)



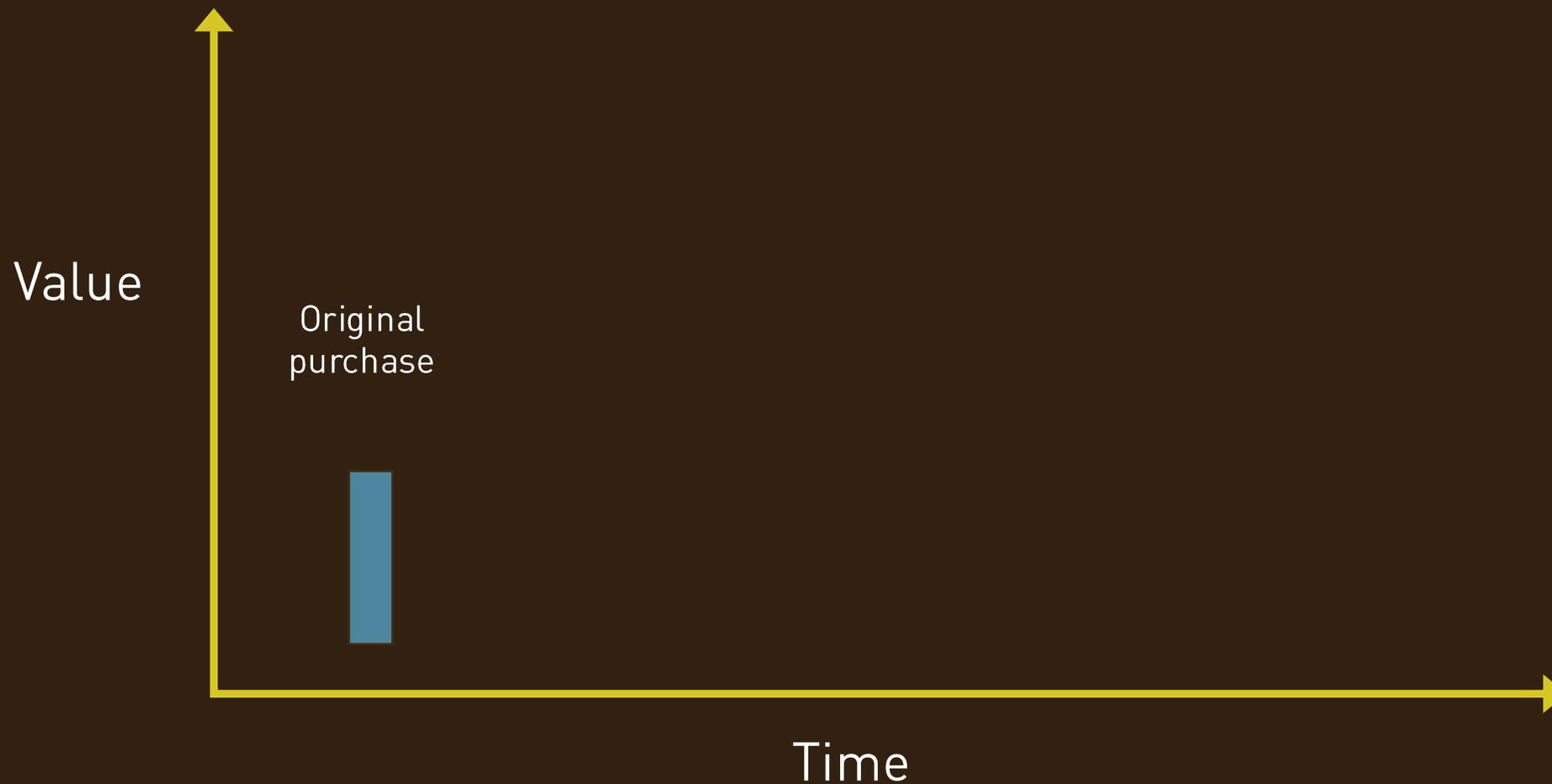
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Capital Gains



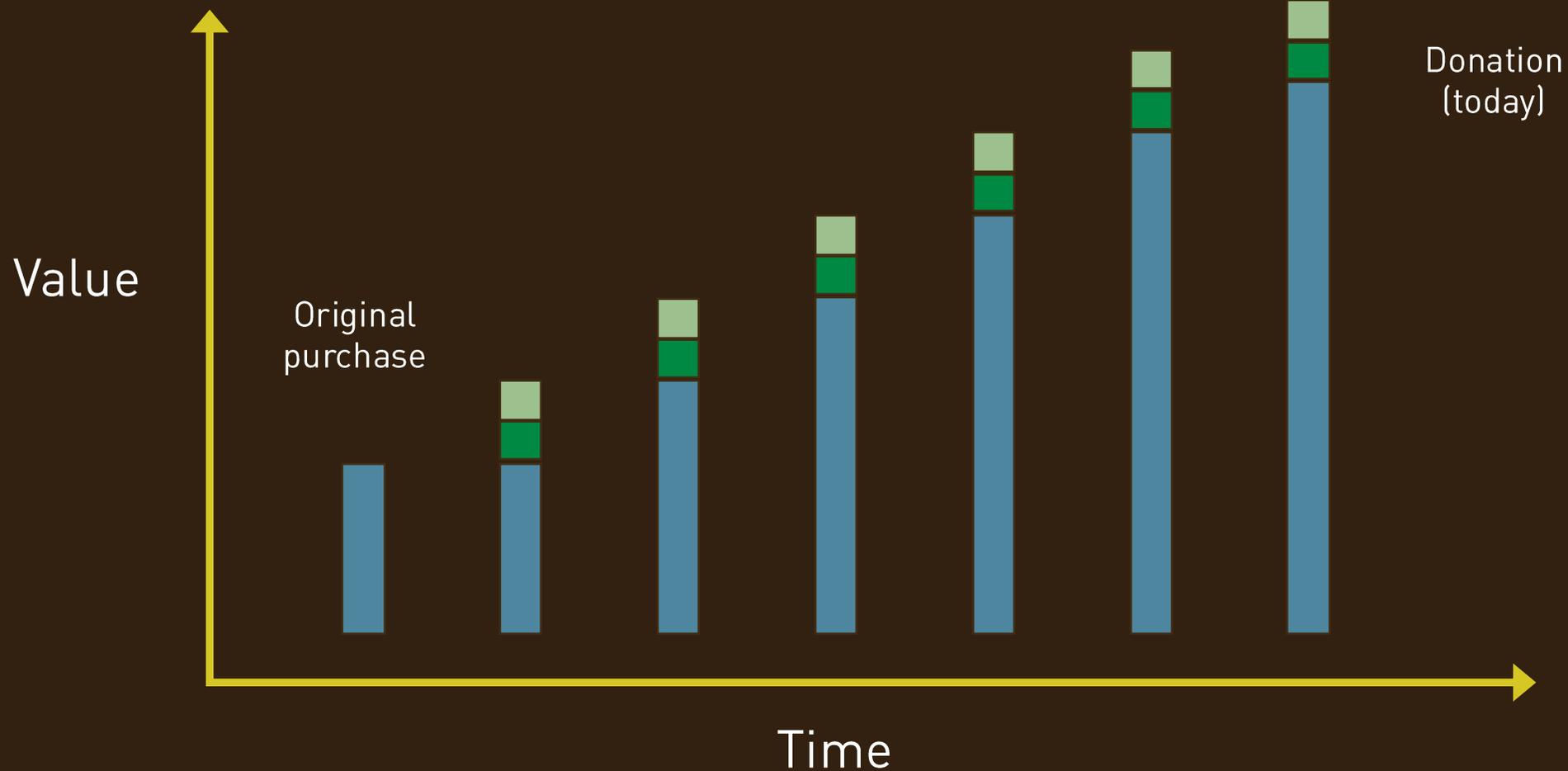
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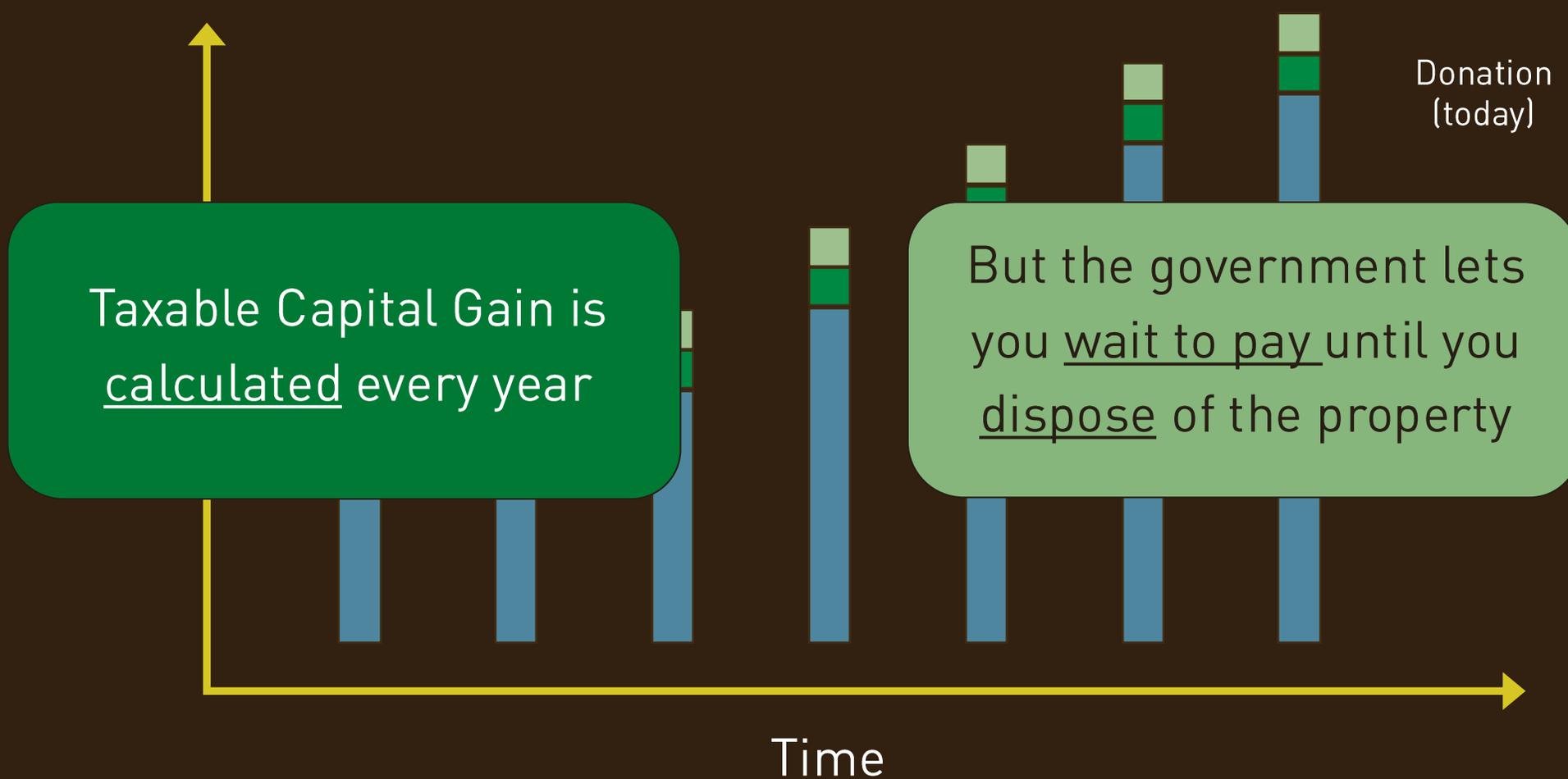
CONSERVATION LAND AND CONSERVATION EASEMENT DONATIONS

Capital Gains



CONSERVATION LAND AND CONSERVATION EASEMENT DONATIONS

Capital Gains



Capital Gains

- Only pay capital gains taxes on the portion of land you dispose of
- Lifetime Capital Gains Exemption
 - For qualified farm or fish property, certain amount of capital gains taxes will be forgiven over a lifetime
 - Can use that in any tax year, until it is used up
- Capital gains taxes can be deferred
 - In some cases, capital gains taxes can be deferred
 - E.g., passing some ag land on to an heir
 - But they are "deferred" not erased
 - Your heir is now liable for the taxes you accumulated

Cash payments

- Cash compensation is considered differently in taxation
- The amount you receive is not taxed as income
- But the capital gain it represents is taxed
- Even if your 'gift' is certified as an EcoGift the tax benefits **ONLY** apply to the gift, not the payment



Case Study

An example ...

- A landowner grants a conservation easement or transfers a conservation property
- They receive 20% of the value as a cash payment, and donate the rest, receiving 80% of compensation as a charitable tax receipt
- The gift is EcoGift certified, so the gift (80%) is exempted from capital gains taxes
- However, 20% of the calculated capital gain is taxable



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Terminology

Jurisdictions with
“conservation
easement”
legislation



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Terminology

Conservation Easement



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Terminology

Conservation Easement

Conservation Covenant



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Terminology

Conservation Easement

Conservation Covenant

Conservation Agreement



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Terminology

Conservation Easement

Conservation Covenant

Conservation Agreement

Conservation Easement
Agreement



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Terminology

- Conservation Easement
- Conservation Covenant
- Conservation Agreement
- Conservation Easement Agreement
- Servitude de conservation



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Terminology

Conservation Easement

Conservation Cover

Conservation Agree

Conservation Easement
Agreement

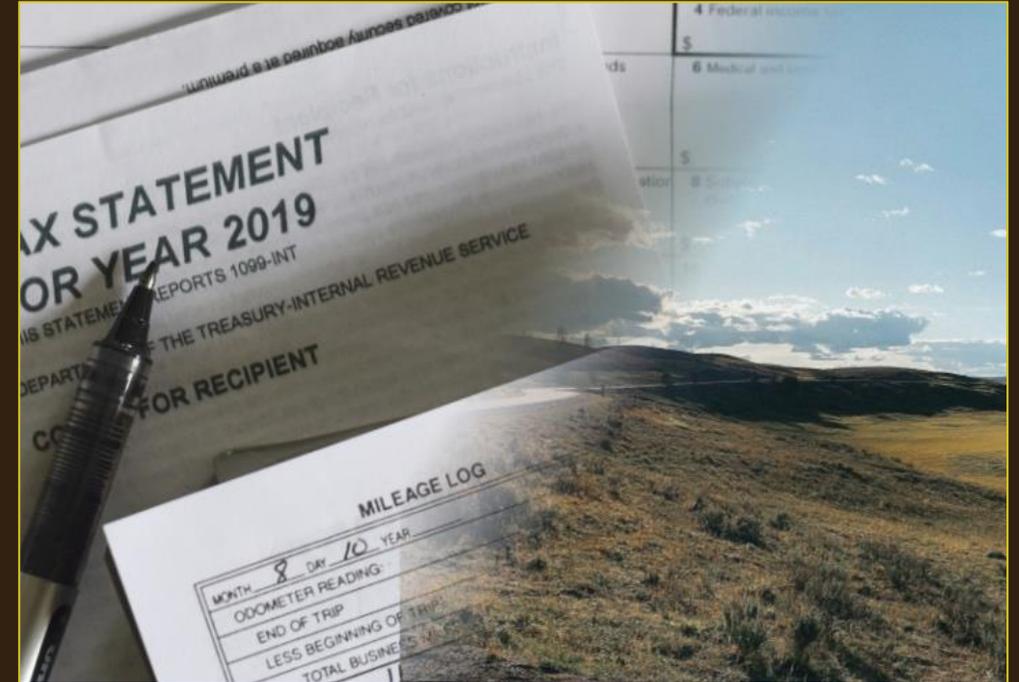
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For the purposes of the
Conservation Land Donation Tax Estimator,
these are all the same:
'Conservation Easements'

WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

What's the Same?

- All provinces use the same federal T1 Tax Form
- Each provincial form riffs off of that in some way
- Taxable income calculations are generally consistent
- Capital gains calculations are the same



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

What's Different?



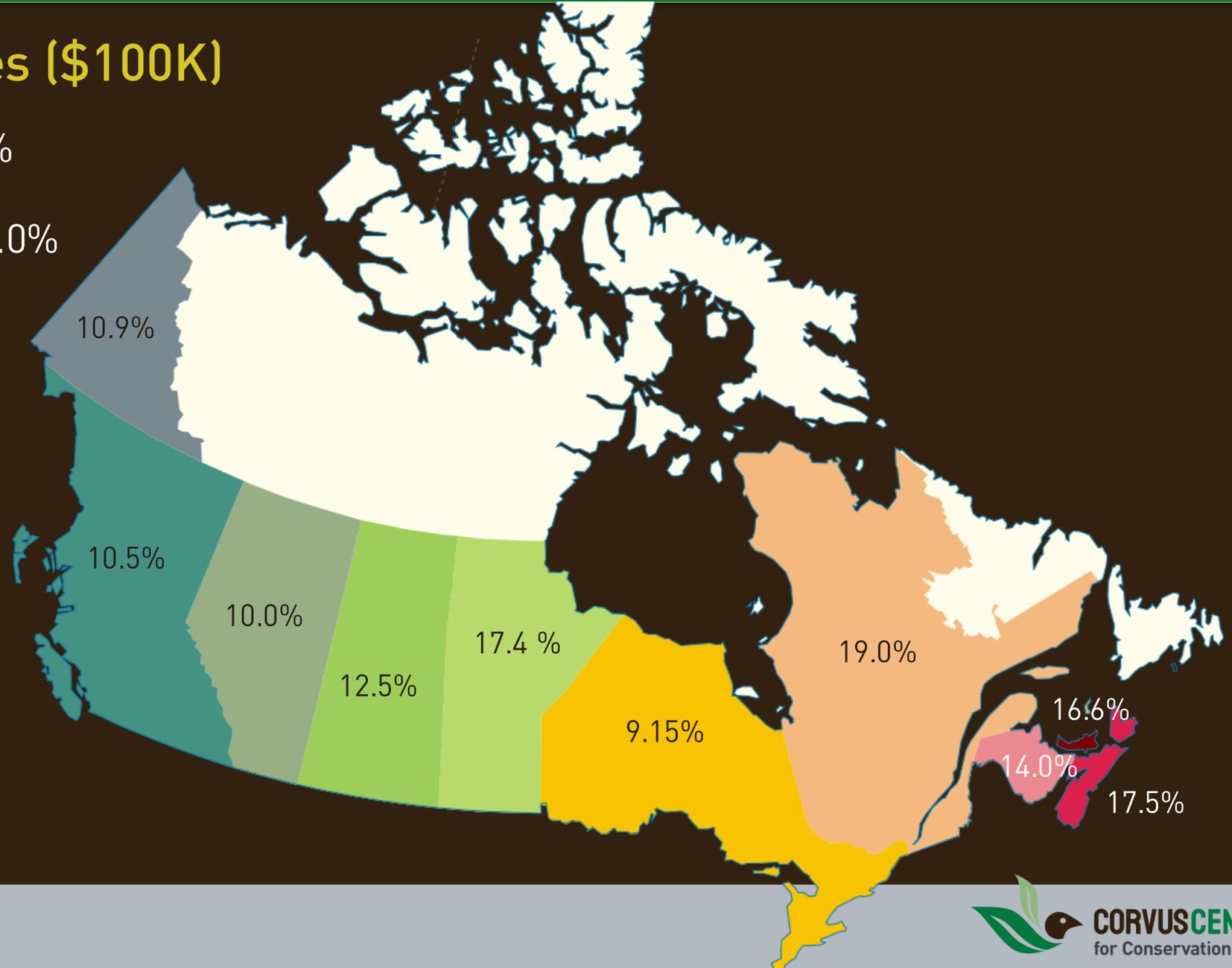
WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Income Tax Rates (\$100K)

Federal Rate: 20.5%

Range: 9.15% to 19.0%

Average: 13.76%



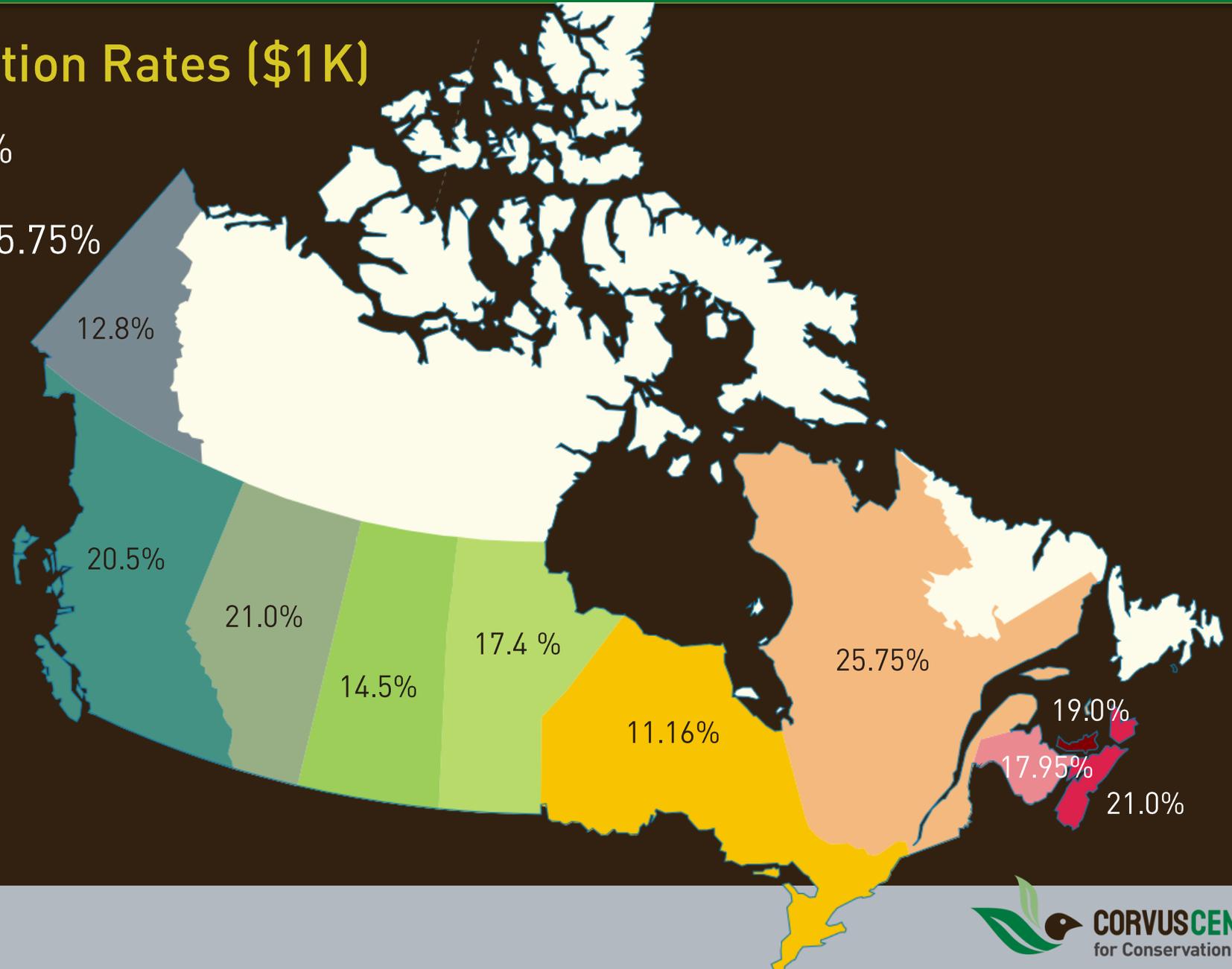
WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Charitable Donation Rates (\$1K)

Federal Rate: 29.0%

Range: 11.16% to 25.75%

Average: 17.4%



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Tax Estimator
Currently
Programmed
Only for
Alberta



WHAT'S DIFFERENT ACROSS CANADA? WHAT'S THE SAME?

Taxes

Federal Rate: 20.5%

Prov. Avg: 13.76%

Alberta: 10.0%

Charitable Deduction

Federal Rate: 29.0%

Alberta: 21.0%

Prov. Avg: 17.4%





CONSERVATION LAND DONATION TAX ESTIMATOR

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Web site



Tax Estimator | Corvus Centre

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- No cost
- No registration required
- Do not upload personal data
- Download an Excel spreadsheet

corvus.ca/tax-estimator

CONSERVATION LAND DONATION TAX ESTIMATOR

Three Critical Points

- This is an 'Estimator' not a 'Calculator'
- This is not a 'Calculator', it is an 'Estimator'
- **'Estimator' NOT 'Calculator'**

Tax Estimator | Corvus Centre

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CONSERVATION LAND DONATION TAX ESTIMATOR

What it Does

- Assumes a base level of financial information
- Runs that information through the actual tax forms
- Returns the results in real time
- Allows tweaking and instant results



CONSERVATION LAND DONATION TAX ESTIMATOR

What the User Enters

- The Fair Market Value of
 - The property today (fee simple); OR
 - The property today without the conservation easement AND with it
- The price originally paid for it (the ACB)
- The costs of 'disposing' of it (appraisals, legal fees, etc.)
- The amount of cash compensation (if any) you received
- Your 'un-taxed' income



What the Estimator Considers

- Federal tax rates
- Alberta provincial tax rates
- Basic personal amount
- Age exemption
- Donation of land or easement
- Capital gains on donated lands
- Qualified Farm or Fishing Property
- Lifetime Capital Gains Exemption
- Ecological Gifts Program



What the Estimator Does NOT Consider

- Capital gains not associated with the Conservation Land donation
- Capital losses
- Reserves on capital gains
- Income other than self-employed or net farming income
- Other donations
- Investments, including gifts of investments
- Other deductions (medical, tuition, child care, etc.)
- Income from Old Age Security or Canada Pension Plan
- Spouses, common-law partners, or business partners
- Donations of conservation land by corporations

Questions for Your Accountant

- Optimizing a tax receipt
- Lifetime Capital Gains Exemption
- Estate planning
- EcoGift
- Alternative Minimum Tax
- Corporately-held Lands
- Inventory Lands



WALK THROUGH



Elements of the Walk Through

- Downloading the tool
- Entering the information
- Interpreting the outputs
- Future years



QUESTIONS?



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