



### **GETTING OFF THE FENCE: HOW TO EXPAND YOUR OPERATION BY DONATING A CONSERVATION EASEMENT**

Like most of us, Pat and Sharon O’Toole had a few debts and were looking for something that might provide a ray of hope for their ranch. They ended up hearing about a program through Colorado Cattlemen’s Agricultural Land Trust (CCALT) where they could donate a conservation easement to earn Colorado state income tax credits which could be sold for cash. Pat says he initially thought it was a debt reduction program but “it ended up changing our entire operation. The program made our operation much, much stronger.”

Through the help of Cattlemen’s and Tax Credit Connection, Inc. Pat and Sharon ended up doing much more than clear a few debts for their ranch along the Colorado-Wyoming state line. They ended up having the funds to make a dream purchase of the original homestead connected to their lands. With nine miles of river frontage, the land wasn’t priced as agricultural land. “The conservation easement made it possible for us to purchase the historic homestead,” said Pat.

A conservation easement is a permanent restriction on how the land can be used in order to protect conservation values (wildlife habitat, open space, public recreation, working agricultural lands and scenic vistas, among others). The land stays in private ownership and can be mortgaged, leased, sold or passed to heirs; however, the restrictions stay with the land forever. As Pat explains, “For us, it’s a great fit.”

The Ladder Ranch ([www.ladderranch.com](http://www.ladderranch.com)) is primarily open rangeland and is an important part of the agricultural landscape in Routt County (CO) and Carbon County (WY). The Little Snake River flows through the property for approximately nine miles and falls within the range of 229 bird species, 60 mammal species, and 14 reptile or amphibian species. It's also good habitat for 5 special status (Threatened and Endangered) species including the sharp-tailed grouse, greater sage grouse, yellow billed cuckoo, bald eagle, and Colorado cutthroat trout. "There are grouse everywhere!" Pat proudly exclaims.

"Development is taking over our area. We need to make sure the land stays the same before there are no more farms and ranches," says Pat. The O'Tooles have been raising "sheep, cattle, horses, dogs, and children" on their ranch for many years, and he's witnessed first-hand what development has done to the area. As a result, they decided to keep their property intact.

While placing the conservation easement on the ranch was a long process, Pat was happy with the results. "I've worked with some good people on this; they all have been very helpful."

The O'Tooles used the proceeds to buy the original homestead connected to their property. Here's how the conservation easement tax credit program could help you expand your operation:

### **Conservation Easement Tax Incentives**

Your major reward for donating a conservation easement is to earn Colorado state income tax credits, and a Federal tax deduction. The value of the Colorado state tax credits is based on a qualified appraisal of how much value you're giving up by permanently restricting the use of your land. For example, if the property is worth \$1,700,000 as a potential subdivision (what could be done today), but is only worth \$900,000 as farmland and one house site (as restricted by the conservation easement), the donation value would be the difference between the two, or \$800,000. You'd earn tax credits worth 75% of the first \$100,000 and 50% of the remaining donation up to a total maximum credit of \$1.5 million. In this example, you'd earn \$425,000 in tax credits (75% of \$100,000 and 50% of \$700,000).

Even though you can use these tax credits toward your state income tax liability for up to 20 years, for many people their state income tax liability is low enough that using the tax credits is not attractive. The other option is to sell all or some of the credits through Tax Credit Connection, Inc. for 85% of the face value of the credit. In this example, you'd receive \$361,250 in cash from selling your \$425,000 tax credit (85% of \$425,000).

### **Expanding Your Operation**

With an extra \$361,250 in your pocket you could make a hefty down payment on the ranch next door and fold it into your operation. If you placed an easement on your new purchase it's possible you could pay off the rest of the mortgage!

Let's say you purchased the 100 acres next door for \$400,000. You used the proceeds from your tax credit sale as a down payment so you now have a \$38,750 debt to pay down. If the before value of the newly acquired 100 acres is \$400,000 but is only worth \$200,000 as farmland with no house site (as restricted by the conservation easement), the donation value would be the difference between the two, or \$200,000. You'd earn tax credits worth 75% of the first \$100,000

and 50% of the remaining donation. In this example, you'd earn \$125,000 in tax credits (75% of first \$100,000 and 50% of the remaining \$100,000).

To continue this example, you could sell those credits through a tax credit broker for approximately 85% of the face value of the credit. You'd receive \$106,250 in cash from selling your \$125,000 tax credit (85% of \$125,000). Using the check from your tax credit sale you could pay off the remaining debt and still have cash in your pocket to put towards a new tractor!

### **Is a Conservation Easement Right for You?**

Donating a conservation easement isn't the best fit for all landowners, but for those who want to stay on their land and ensure that it remains undeveloped, a donation can allow for a cash infusion and the peace of mind that the farm will always remain a farm and the elk will always have a place to graze.

Ariel Steele, owner of Tax Credit Connection, Inc. says "Many farmers and ranchers who have been thinking about conserving their land in the past are starting to donate easements now that you can earn as much as \$1.5M in tax credits." Instead of using the credits on your own tax liability, you can sell those credits on the market and put cash in your pocket. This transferable credit is exactly what got Pat and Sharon off the fence and place an easement on their ranch. Once they sold their tax credits they had the funds to clear some debts and purchase the original homestead connected to their lands.

Pat concludes "I would *never* talk someone into donating a conservation easement. It's a personal thing. Dig down deep in your heart and decide what you're comfortable with. We had four generations around the table when we made our decision."

### **For more information on conservation easement tax credits, please contact:**

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