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SENATE BILL NO. 979

Offered January 12, 2011

Prefiled January 11, 2011

A BILL to amend and reenact § 58.1-512 of the Code of Virginia, relating to the land preservation tax credit; decreasing the tax credit threshold at which the conservation value of a donation is required to be verified.

Patron—Whipple

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That § 58.1-512 of the Code of Virginia is amended and reenacted as follows:

§ 58.1-512. Land preservation tax credits for individuals and corporations.

A. (Effective for taxable years beginning before January 1, 2011) For taxable years beginning on or after January 1, 2000, there shall be allowed as a credit against the tax liability imposed by §§ 58.1-320 and 58.1-400, an amount equal to 50% of the fair market value of any land or interest in land located in Virginia which is conveyed for the purpose of agricultural and forestal use, open space, natural resource, and/or biodiversity conservation, or land, agricultural, watershed and/or historic preservation, as an unconditional donation by the landowner/taxpayer to a public or private conservation agency eligible to hold such land and interests therein for conservation or preservation purposes. For such conveyances made on or after January 1, 2007, the tax credit shall be 40% of the fair market value of the land or interest in land so conveyed.

A. (Effective for taxable years beginning on or after January 1, 2011) For taxable years beginning on or after January 1, 2000, there shall be allowed as a credit against the tax liability imposed by §§ 58.1-320 and 58.1-400, an amount equal to 50 percent of the fair market value of any land or interest in land located in Virginia which is conveyed for the purpose of agricultural and forestal use, open space, natural resource, and/or biodiversity conservation, or land, agricultural, watershed and/or historic preservation, as an unconditional donation by the landowner/taxpayer to a public or private conservation agency eligible to hold such land and interests therein for conservation or preservation purposes. For such conveyances made on or after January 1, 2007, the tax credit shall be 40 percent of the fair market value of the land or interest in land so conveyed.

B. The fair market value of qualified donations made under this section shall be determined in accordance with § 58.1-512.1 and substantiated by a "qualified appraisal" prepared by a "qualified appraiser," as those terms are defined under applicable federal law and regulations governing charitable contributions. The value of the donated interest in land that qualifies for credit under this section, as determined according to appropriate federal law and regulations, shall be subject to the limits established by United States Internal Revenue Code § 170(e). In order to qualify for a tax credit under this section, the qualified appraisal shall be signed by the qualified appraiser, who must be licensed in the Commonwealth of Virginia as provided in § 54.1-2011, and a copy of the appraisal shall be submitted to the Department. In the event that any appraiser falsely or fraudulently overstates the value of the contributed property in an appraisal that the appraiser has signed, the Department may disallow further appraisals signed by the appraiser and shall refer the appraiser to the Real Estate Appraiser Board for appropriate disciplinary action pursuant to § 54.1-2013, which may include, but need not be limited to, revocation of the appraiser's license. Any appraisal that, upon audit by the Department, is determined to be false or fraudulent, may be disregarded by the Department in determining the fair market value of the property and the amount of tax credit to be allowed under this section.

C. 1. (Effective for taxable years beginning before January 1, 2011) The amount of the credit that may be claimed by each taxpayer, including credit claimed by applying unused credits as provided under subsection C of § 58.1-513, shall not exceed \$50,000 for 2000 taxable years, \$75,000 for 2001 taxable years, \$100,000 for each of 2002 through 2008 taxable years, \$50,000 for each of 2009 and 2010 taxable years, and \$100,000 for 2011 taxable years and for each taxable year thereafter. In addition, for each taxpayer, in any one taxable year the credit used may not exceed the amount of individual, fiduciary or corporate income tax otherwise due. Any portion of the credit that is unused in any one taxable year may be carried over for a maximum of 10 consecutive taxable years following the taxable year in which the credit originated until fully expended. For taxpayers affected by the credit reduction for taxable years 2009 and 2010, any portion of the credit that is unused in any one taxable year may be carried over for a maximum of 12 consecutive taxable years following the taxable year in which the credit originated until fully expended.

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59 C. 1. (Effective for taxable years beginning on or after January 1, 2011) The amount of the credit
60 that may be claimed by each taxpayer, including credit claimed by applying unused credits as provided
61 under subsection C of § 58.1-513, shall not exceed \$50,000 for 2000 taxable years, \$75,000 for 2001
62 taxable years, \$100,000 for each of 2002 through 2008 taxable years, \$50,000 for each of 2009, 2010,
63 and 2011 taxable years, and \$100,000 for 2012 taxable years and for each taxable year thereafter. In
64 addition, for each taxpayer, in any one taxable year the credit used may not exceed the amount of
65 individual, fiduciary or corporate income tax otherwise due. Any portion of the credit that is unused in
66 any one taxable year may be carried over for a maximum of 10 consecutive taxable years following the
67 taxable year in which the credit originated until fully expended. For taxpayers affected by the credit
68 reduction for taxable years 2009, 2010, and 2011, any portion of the credit that is unused in any one
69 taxable year may be carried over for a maximum of 13 consecutive taxable years following the taxable
70 year in which the credit originated until fully expended.

71 2. Qualified donations shall include the conveyance of a fee interest in real property or the
72 conveyance in perpetuity of a less-than-fee interest in real property, such as a conservation restriction,
73 preservation restriction, agricultural preservation restriction, or watershed preservation restriction,
74 provided that such less-than-fee interest qualifies as a charitable deduction under § 170(h) of the United
75 States Internal Revenue Code of 1986, as amended.

76 The Department of Conservation and Recreation shall compile an annual report on qualified
77 donations of less-than-fee interests accepted by any public or private conservation agency in the
78 respective calendar year and shall submit the report by December 1 of each year to the Chairmen of the
79 House Committee on Appropriations, House Committee on Finance, and the Senate Committee on
80 Finance. In preparing such report, the Department of Conservation and Recreation shall consult and
81 coordinate with the Department of Taxation and the Departments of Forestry and Agriculture and
82 Consumer Services to provide an estimate of the number of acres of land currently being used for
83 "production agriculture and silviculture" as defined in § 3.2-300 that have been protected by qualified
84 donations of less-than-fee interests. This report shall include information, when available, on land
85 qualifying for credits being used for "production agriculture and silviculture" that have onsite operational
86 best management practices, which are designed to reduce the amount of nutrients and sediment entering
87 public waters. This information shall be reported in summary fashion as appropriate to preserve
88 confidentiality of information. Qualified donations shall not include the conveyance of a fee interest, or
89 a less-than-fee interest, in real property by a charitable organization that (i) meets the definition of
90 "holder" in § 10.1-1009 and (ii) holds one or more conservation easements acquired pursuant to the
91 authority conferred on a "holder" by § 10.1-1010.

92 3. Any fee interest, or a less-than-fee interest, in real property that has been dedicated as open space
93 within, or as part of, a residential subdivision or any other type of residential or commercial
94 development; dedicated as open space in, or as part of, any real estate development plan; or dedicated
95 for the purpose of fulfilling density requirements to obtain approvals for zoning, subdivision, site plan,
96 or building permits shall not be a qualified donation under this article.

97 4. Qualified donations shall be eligible for the tax credit herein described if such donations are made
98 to the Commonwealth of Virginia, an instrumentality thereof, or a charitable organization described in
99 § 501(c) (3) of the United States Internal Revenue Code of 1986, as amended, if such charitable
100 organization (i) meets the requirements of § 509(a) (2) or (ii) meets the requirements of § 509(a) (3) and
101 is controlled by an organization described in § 509(a) (2).

102 5. The preservation, agricultural preservation, historic preservation or similar use and purpose of such
103 property shall be assured in perpetuity. In the case of conveyances of a fee interest to a charitable
104 organization that is a "holder" as defined in § 10.1-1009, the credit shall not be allowed until the
105 charitable organization agrees that subsequent conveyances of the fee interest in the property will be (i)
106 subject to a previous conveyance in perpetuity of a conservation easement, as that term is defined in
107 § 10.1-1009, or subject to the conveyance in perpetuity of an open-space easement, as that term is
108 defined in § 10.1-1700, or (ii) conveyed to the Commonwealth of Virginia or to a federal conservation
109 agency. No credit shall be allowed with respect to any subsequent conveyances by the charitable
110 organization.

111 D. The issuance of tax credits under this article for donations made on and after January 1, 2007,
112 shall be in accordance with procedures and deadlines established by the Department and shall be
113 administered under the following conditions:

114 1. The taxpayer shall apply for a credit after completing the donation by submitting a form or forms
115 prescribed by the Department in consultation with the Department of Conservation and Recreation. If the
116 application requests a credit of ~~\$1 million~~ \$500,000 or more or if the donation meets the conditions of
117 subdivision 3 c, then a copy of the application shall also be filed with the Department of Conservation
118 and Recreation by the taxpayer. The application shall include, but not be limited to:

- 119 a. A description of the conservation purpose or purposes being served by the donation;
120 b. The fair market value of land being donated in the absence of any easement or other restriction;

121 c. The public benefit derived from the donation;
122 d. The extent to which water quality best management practices will be implemented on the property;
123 and

124 e. Whether the property is fully or partially forested and a forest management plan is included in the
125 terms of the donation.

126 2. Applications for otherwise qualified donations of a less-than-fee interest shall be accompanied by
127 an affidavit describing how the donated interest in land meets the requirements of § 170(h) of the United
128 States Internal Revenue Code of 1986, as amended, and the regulations adopted thereunder. The
129 application with accompanying affidavit shall be submitted to the Department of Taxation, with a copy
130 also provided to the Department of Conservation and Recreation.

131 3. a. No credit in the amount of ~~\$1 million~~ \$500,000 or more shall be issued with respect to a
132 donation unless the conservation value of the donation has been verified by the Director of the
133 Department of Conservation and Recreation, based on the criteria adopted by the Virginia Land
134 Conservation Foundation for this purpose. Such criteria and subsequent amendments shall be exempt
135 from the Administrative Process Act (§ 2.2-4000 et seq.), but the Virginia Land Conservation
136 Foundation shall provide for adequate public participation, including adequate notice and opportunity to
137 provide comments on the proposed criteria. The Director shall act on applications within 90 days of his
138 receipt of a complete application and shall notify the taxpayer and the Department of Taxation of his
139 action.

140 b. For purposes of determining whether a credit requires verification of the conservation value, the
141 credits allowed under this article with respect to donations of any other portion of a recorded parcel of
142 land within the preceding 11 years shall be aggregated with the credit claimed for the current donation.
143 This subdivision shall not apply if (i) all owners of the parcel who have been allowed credit for a
144 qualified donation are not affiliated with the person or entity seeking credit for the current donation of a
145 different portion of the parcel and (ii) in the case of an individual seeking credit, the individual has not
146 previously made a qualified donation for any portion of the parcel and is not an immediate family
147 member of any such owners.

148 c. If (i) the real property that is the subject of the donation was partitioned from or part of another
149 parcel of land and any other portion of such parcel, or any land partitioned from such parcel of land,
150 has been allowed a tax credit under this article (or an application for tax credit is pending) within three
151 years of such donation and (ii) the tax credit that would otherwise be allowed to the donor for such
152 donation is at least \$250,000, then no credit under this article shall be issued with respect to such
153 donation described in clause (i) unless the conservation value of the donation has been verified by the
154 Director of the Department of Conservation and Recreation. The Director shall act on applications within
155 90 days of his receipt of a complete application and shall notify the taxpayer and the Department of
156 Taxation of his action. Nothing in this subdivision shall be construed or interpreted (i) as allowing
157 additional tax credit for any land or interest in land previously conveyed for which tax credit has already
158 been allowed under this article or (ii) affecting the validity of any tax credit allowed under this article
159 for a prior conveyance of any land or interest in land.

160 4. a. Tax credits shall be issued on a calendar year basis, and in no case shall the Department issue
161 more than the maximum allowed for the calendar year. For donations made in calendar year 2007 the
162 maximum allowed is \$100 million. The credits shall be issued in the order that each complete
163 application is received. If more than one application is received at the same time, the credits with
164 respect to those applications shall be issued in the order that the conveyances were recorded in the
165 appropriate circuit court of the Commonwealth. In the event that a credit requires verification of the
166 conservation value by the Department of Conservation and Recreation and such verification has not been
167 received at the time the maximum \$100 million allowed is reached for the calendar year of the donation,
168 such credit shall not be issued for that calendar year but shall be issued in the calendar year that the
169 conservation value of the credit is verified by the Department of Conservation and Recreation.

170 b. Beginning with calendar year 2008, the \$100 million amount contained in subdivision 4 a shall be
171 increased by an amount equal to \$100 million multiplied by the percentage by which the consumer price
172 index for all-urban consumers published by the United States Department of Labor (CPI-U) for the
173 12-month period ending August 31 of the preceding year exceeds the CPI-U for the 12-month period
174 ending August 31, 2006.

175 5. (Effective for taxable years beginning before January 1, 2011) a. Any taxpayer that has been
176 issued a tax credit by the Department shall be allowed to use such credit for his or its taxable year that
177 begins in the calendar year for which such credit was issued and for succeeding taxable years in
178 accordance with the 10 consecutive taxable year carryforward provisions of this article, except for any
179 taxpayer affected by the credit limitation for taxable years 2009 and 2010. Such a taxpayer shall be
180 allowed to use such credit for his or its taxable year that begins in the calendar year for which such
181 credit was issued and for succeeding taxable years in accordance with the 12 consecutive taxable year

182 carryforward provisions of this article.

183 b. Any taxpayer to whom a credit has been transferred may use such credit for the taxable year in
184 which the transfer occurred and unused amounts may be carried forward to succeeding taxable years, but
185 in no event may such transferred credit be used more than 11 years after it was originally issued by the
186 Department or in any taxable year of such taxpayer that ended prior to the date of transfer, except for
187 any taxpayer affected by the credit limitation for taxable years 2009 and 2010. Such a taxpayer may use
188 such credit for the taxable year in which the transfer occurred and unused amounts may be carried
189 forward to succeeding taxable years, but in no event may such transferred credit be used more than 13
190 years after it was originally issued by the Department or in any taxable year of such taxpayer that ended
191 prior to the date of transfer.

192 5. (Effective for taxable years beginning on or after January 1, 2011) a. Any taxpayer that has been
193 issued a tax credit by the Department shall be allowed to use such credit for his or its taxable year that
194 begins in the calendar year for which such credit was issued and for succeeding taxable years in
195 accordance with the 10 consecutive taxable year carryforward provisions of this article, except for any
196 taxpayer affected by the credit limitation for taxable years 2009, 2010, and 2011. Such a taxpayer shall
197 be allowed to use such credit for his or its taxable year that begins in the calendar year for which such
198 credit was issued and for succeeding taxable years in accordance with the 13 consecutive taxable year
199 carryforward provisions of this article.

200 b. Any taxpayer to whom a credit has been transferred may use such credit for the taxable year in
201 which the transfer occurred and unused amounts may be carried forward to succeeding taxable years, but
202 in no event may such transferred credit be used more than 11 years after it was originally issued by the
203 Department or in any taxable year of such taxpayer that ended prior to the date of transfer, except for
204 any taxpayer affected by the credit limitation for taxable years 2009, 2010, and 2011. Such a taxpayer
205 may use such credit for the taxable year in which the transfer occurred and unused amounts may be
206 carried forward to succeeding taxable years, but in no event may such transferred credit be used more
207 than 14 years after it was originally issued by the Department or in any taxable year of such taxpayer
208 that ended prior to the date of transfer.

209 6. Neither the verification of conservation value by the Department of Conservation and Recreation
210 nor the issuance of a credit by the Department of Taxation shall in any way be construed or interpreted
211 as prohibiting the Department of Taxation or the Tax Commissioner from auditing any credit claimed
212 pursuant to the provisions of this article or from assessing tax relating to the claiming of any credit
213 under this article.

214 E. In any review or appeal before the Tax Commissioner or in any court in the Commonwealth the
215 burden of proof shall be on the taxpayer to show that the fair market value and conservation value at
216 the time of the qualified donation is consistent with this section and that all requirements of this article
217 have been satisfied.

218 **2. That the provisions of this act shall be applicable to applications for a tax credit pursuant to**
219 **the Virginia Land Conservation Incentives Act of 1999 (§ 58.1-510 et seq. of the Code of Virginia)**
220 **for which the Department of Taxation has not issued a tax credit or otherwise approved for tax**
221 **credit as of July 1, 2010.**