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HOUSE BILL NO. 449

Offered January 11, 2006

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A BILL to amend and reenact §§ 58.1-512 and 58.1-513 of the Code of Virginia, relating to land preservation tax credits.

Patrons—Ware, R.L., Albo, Athey, Callahan, Cosgrove, Fralin, Gear, Gilbert, Jones, S.C., Kilgore, Landes, Marshall, D.W., Morgan, Nutter, O'Bannon, Rust, Wittman and Wright

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-512 and 58.1-513 of the Code of Virginia are amended and reenacted as follows:

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

A. ~~For taxable years beginning on or after January 1, 2000, there~~ *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~~ *for a qualified donation 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 in perpetuity by the landowner/taxpayer to a public or private conservation agency eligible to hold such land and interests therein for conservation or preservation purposes. *Except as provided herein, the amount of such credit shall be the lesser of \$2.5 million or an amount equal to 50% of the fair market value of the donated land or interest in land. The credit amount may exceed \$2.5 million, up to an amount equal to 50% of the fair market value of the donated interest in land, only if:*

1. the taxpayer has submitted to the Department two qualified appraisals from two different qualified appraisers; and

2. the Secretary of Natural Resources has determined that the qualified donation provides exceptional benefit to the Commonwealth by meeting standards adopted by the Virginia Land Conservation Foundation. Such determination shall be within the sole discretion of the Secretary. The standards shall ensure that the qualified donation provides appropriate protections for all natural and cultural resources on the property. Any request for a determination by the Secretary shall be accompanied by a fee of \$5,000. Revenues generated by such fees shall be deposited in the Virginia Land Conservation Fund to be used for the implementation of this article and the administration of the Fund.

B. The fair market value of qualified donations made under this section shall be 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 U.S. 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. The amount of the credit that may be claimed by a taxpayer shall not exceed \$50,000 for 2000 taxable years, \$75,000 for 2001 taxable years, and \$100,000 for 2002 taxable years and thereafter. In addition, in~~ *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 which is unused in any one taxable year may be carried over for a maximum of five consecutive taxable years following the taxable year in which the credit originated until fully expended.

2. Qualified donations shall include the conveyance in perpetuity of a fee interest in real property or a less-than-fee interest in real property, such as a conservation restriction, preservation restriction, agricultural preservation restriction, or watershed preservation restriction, provided that such less-than-fee

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HB449

58 interest qualifies as a charitable deduction under § 170 (h) of the U.S. Internal Revenue Code of 1986,
59 as amended. *Qualified donations of a less-than-fee interest shall be eligible for the credit if a statement,*
60 *describing how the donated interest in land meets the requirements of § 170 (h) of the U.S. Internal*
61 *Revenue Code of 1986, as amended, and the regulations adopted thereunder, is submitted by the*
62 *taxpayer to the Department on a form that shall be developed by the Tax Commissioner in consultation*
63 *with the Secretary of Natural Resources. The statement shall include, but not be limited to, a description*
64 *of the conservation purpose or purposes being served by the qualified donation and the public benefit*
65 *derived from the donation. The Department shall provide a copy of the statement to the Department of*
66 *Conservation and Recreation, which shall compile an annual report on qualified donations.*

67 3. Qualified donations shall not include the:

68 a. conveyance of a fee interest, or a less-than-fee interest, in real property that has been dedicated for
69 the purpose of fulfilling density requirements to obtain approvals for zoning, subdivision, site plan, or
70 building permits; or

71 b. conveyance of a fee interest, or a less-than-fee interest, in real property by a charitable
72 organization that (i) meets the definition of "holder" in § 10.1-1009, and (ii) holds one or more
73 conservation easements; or

74 c. donation or portion of a donation of an easement on, or other less-than-fee interest in, a historic
75 building or a functionally related complex of historic buildings, unless such building or building
76 complex is individually designated as a historic landmark pursuant to § 10.1-2206.1 for listing in the
77 Virginia Landmarks Register, and the easement or other interest imposed restrictions on all exterior
78 surfaces of the building or principal historic buildings, as determined by the Department of Historic
79 Resources, in the case of a complex of buildings.

80 34. Qualified donations shall be eligible for the tax credit herein described if such donations are
81 made to the Commonwealth of Virginia, an instrumentality thereof, or a charitable organization
82 described in § 501 (c) (3) of the U.S. Internal Revenue Code of 1986, as amended, if such charitable
83 organization (i) meets the requirements of § 509 (a) (2) or (ii) meets the requirements of § 509 (a) (3)
84 and is controlled by an organization described in § 509 (a) (2).

85 45. The preservation, agricultural preservation, historic preservation or similar use and purpose of
86 such property shall be assured in perpetuity.

87 § 58.1-513. Limitations; transfer of credit; gain or loss from tax credit.

88 A. Any taxpayer claiming a tax credit under this article shall not claim a credit under any similar
89 Virginia law for costs related to the same project. To the extent a credit is taken in accordance with this
90 article, no subtraction allowed for the gain on the sale of (i) land dedicated to open-space use or (ii) an
91 easement dedicated to open-space use under subsection C of § 58.1-322 shall be allowed for three years
92 following the year in which the credit is taken.

93 B. Any tax credits that arise under this article from the donation of land or an interest in land made
94 by a pass-through tax entity such as a trust, estate, partnership, limited liability company or partnership,
95 limited partnership, subchapter S corporation or other fiduciary shall be used either by such entity if it is
96 the taxpayer on behalf of such entity or by the member, manager, partner, shareholder or beneficiary, as
97 the case may be, in proportion to their interest in such entity in the event that income, deductions and
98 tax liability pass through such entity to such member, manager, partner, shareholder or beneficiary or as
99 set forth in the agreement of said entity. Such tax credits shall not be claimed by both the entity and the
100 member, manager, partner, shareholder or beneficiary for the same donation.

101 C. Any taxpayer holding a credit under this article may transfer unused but otherwise allowable
102 credit for use by another taxpayer on Virginia income tax returns. A taxpayer who transfers any amount
103 of credit under this article shall file a notification of such transfer to the Department in accordance with
104 procedures and forms prescribed by the Tax Commissioner, *along with a fee of 1% of the value of the*
105 *donated interest, or \$5,000, whichever is less. Revenues generated by such fees shall be used by the*
106 *Department for implementation of this article.*

107 D. To the extent included in and not otherwise subtracted from federal adjusted gross income
108 pursuant to § 58.1-322 or federal taxable income pursuant to § 58.1-402, there shall be subtracted any
109 amount of gain or income recognized by a taxpayer on the application of a tax credit under this article
110 against a Virginia income tax liability.

111 E. The transfer of the credit and its application against a tax liability shall not create gain or loss for
112 the transferor or the transferee of such credit.

113 F. A pass-through tax entity, such as a partnership, limited liability company or Subchapter S
114 corporation, may appoint a tax matters representative, who shall be a general partner, member/manager
115 or shareholder, and register that representative with the Tax Commissioner. The Tax Commissioner shall
116 be entitled to deal with the tax matters representative as representative of the taxpayers to whom credits
117 have been allocated or transferred by the entity under this article with respect to those credits. In the
118 event a pass-through tax entity allocates or transfers tax credits arising under this article to its partners,
119 members or shareholders and the allocated or transferred credits shall be disallowed, in whole or in part,

120 such that an assessment of additional tax against a taxpayer shall be made, the Tax Commissioner shall
121 first make written demand for payment of any additional tax, together with interest and penalties, from
122 the tax matters representative. In the event such payment demand is not satisfied, the Tax Commissioner
123 shall proceed to collection against the taxpayers in accordance with the provisions of Chapter 18
124 (§ 58.1-1800 et seq.) of this title.