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**HOUSE BILL NO. 450**

Offered January 11, 2006

Prefiled January 9, 2006

*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., Abbitt, Albo, Athey, Barlow, Bell, Byron, Cline, Cosgrove, Cox, Crockett-Stark, Dudley, Eisenberg, Gilbert, Hall, Howell, W.J., Hugo, Hull, Johnson, Kilgore, Landes, Lingamfelter, Lohr, Marshall, D.W., Marshall, R.G., McClellan, Moran, Morgan, Nutter, Poisson, Shuler, Sickles, Toscano, Valentine and Wittman

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 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 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.

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 § 54.1-2111, 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 § 54.1-2113, 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 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 interest qualifies as a charitable deduction under § 170 (h) of the U.S. Internal Revenue Code of 1986, as amended. *Qualified donations of a less-than-fee interest shall be eligible for the credit if a statement, describing how the donated interest in land meets the requirements of § 170 (h) of the U.S. Internal Revenue Code of 1986, as amended, and the regulations adopted thereunder, is submitted by the taxpayer to the Department on a form that shall be developed by the Tax Commissioner in consultation with the Secretary of Natural Resources. The statement shall include, but not be limited to, a description of the conservation purpose or purposes being served by the qualified donation and the public benefit derived from the donation. The Department shall provide a copy of the statement to the Department of Conservation and Recreation, which shall compile an annual report on qualified donations.*

3. Qualified donations shall not include the:

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

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56 building permits; or

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

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

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

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

73 § 58.1-513. Limitations; transfer of credit; gain or loss from tax credit.

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

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

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

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

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

99 F. A pass-through tax entity, such as a partnership, limited liability company or Subchapter S  
100 corporation, may appoint a tax matters representative, who shall be a general partner, member/manager  
101 or shareholder, and register that representative with the Tax Commissioner. The Tax Commissioner shall  
102 be entitled to deal with the tax matters representative as representative of the taxpayers to whom credits  
103 have been allocated or transferred by the entity under this article with respect to those credits. In the  
104 event a pass-through tax entity allocates or transfers tax credits arising under this article to its partners,  
105 members or shareholders and the allocated or transferred credits shall be disallowed, in whole or in part,  
106 such that an assessment of additional tax against a taxpayer shall be made, the Tax Commissioner shall  
107 first make written demand for payment of any additional tax, together with interest and penalties, from  
108 the tax matters representative. In the event such payment demand is not satisfied, the Tax Commissioner  
109 shall proceed to collection against the taxpayers in accordance with the provisions of Chapter 18  
110 (§ 58.1-1800 et seq.) of this title.