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SENATE BILL NO. 5019

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Governor
on July 7, 2006)

(Patron Prior to Substitute—Senator Chichester)

A *BILL to amend and reenact §§ 58.1-512, 58.1-513, and 58.1-901 of the Code of Virginia, to amend and reenact the second enactment of Chapter 940 of the Acts of Assembly of 2005, and to amend the Code of Virginia by adding a section numbered 58.1-512.1, relating to the taxes of the Commonwealth.*

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-512, 58.1-513, and 58.1-901 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding a section numbered 58.1-512.1 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. *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.*

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 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~~ *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, and \$100,000 for 2002 taxable years and 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 which is unused in any one taxable year may be carried over for a maximum of ~~five~~ *10* 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 *the conveyance in perpetuity of* 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.

The Department of Conservation and Recreation shall compile an annual report on qualified donations of less-than-fee interests accepted by any public or private conservation agency in the respective calendar year and shall submit the report by December 1 of each year to the Chairmen of the House Committee on Appropriations, House Committee on Finance, and the Senate Committee on Finance. Qualified donations shall not include the 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 building permits by a charitable organization that (i) meets the definition of "holder" in § 10.1-1009 and (ii) holds one or more conservation easements.

3. *Any fee interest, or a less-than-fee interest, in real property that has been dedicated as open space within, or as part of, a residential subdivision or any other type of residential or commercial development; dedicated as open space in, or as part of, any real estate development plan; or dedicated*

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60 *for the purpose of fulfilling density requirements to obtain approvals for zoning, subdivision, site plan,*
61 *or building permits shall not be a qualified donation under this article.*

62 4. Qualified donations shall be eligible for the tax credit herein described if such donations are made
63 to the Commonwealth of Virginia, an instrumentality thereof, or a charitable organization described in
64 § 501 (c) (3) of the U.S. Internal Revenue Code of 1986, as amended, if such charitable organization (i)
65 meets the requirements of § 509 (a) (2) or (ii) meets the requirements of § 509 (a) (3) and is controlled
66 by an organization described in § 509 (a) (2).

67 4.5. The preservation, agricultural preservation, historic preservation or similar use and purpose of
68 such property shall be assured in perpetuity. *In the case of conveyances of a fee interest to a charitable*
69 *organization that is a "holder" as defined in § 10.1-1009, the credit shall not be allowed until the*
70 *charitable organization agrees that subsequent conveyances of the fee interest in the property will be (i)*
71 *subject to a previous conveyance in perpetuity of a conservation easement, as that term is defined in*
72 *§ 10.1-1009, or subject to the conveyance in perpetuity of an open-space easement, as that term is*
73 *defined in § 10.1-1700, or (ii) conveyed to the Commonwealth of Virginia or to a federal conservation*
74 *agency. No credit shall be allowed with respect to any subsequent conveyances by the charitable*
75 *organization.*

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

79 1. The taxpayer shall apply for a credit after completing the donation by submitting a form or forms
80 prescribed by the Department in consultation with the Department of Conservation and Recreation. If
81 the application requests a credit of \$1 million or more, then a copy of the application shall also be filed
82 with the Department of Conservation and Recreation by the taxpayer. The application shall include, but
83 not be limited to:

84 a. A description of the conservation purpose or purposes being served by the donation;
85 b. The fair market value of land being donated in the absence of any easement or other restriction;
86 c. The public benefit derived from the donation;
87 d. The extent to which water quality best management practices will be implemented on the property;
88 and

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

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

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

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

112 4. a. Tax credits shall be issued on a calendar year basis, and in no case shall the Department issue
113 more than the maximum allowed for the calendar year. For donations made in calendar year 2007 the
114 maximum allowed is \$100 million. The credits shall be issued in the order that each complete
115 application is received. If more than one application is received at the same time, the credits with
116 respect to those applications shall be issued in the order that the conveyances were recorded in the
117 appropriate circuit court of the Commonwealth. In the event that a credit requires verification of the
118 conservation value by the Department of Conservation and Recreation and such verification has not
119 been received at the time the maximum \$100 million allowed is reached for the calendar year of the
120 donation, such credit shall not be issued for that calendar year but shall be issued in the calendar year
121 that the conservation value of the credit is verified by the Department of Conservation and Recreation.

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

5. a. Any taxpayer that has been issued a tax credit by the Department shall be allowed to use such credit for his or its taxable year that begins in the calendar year for which such credit was issued and for succeeding taxable years in accordance with the 10 consecutive taxable year carryforward provisions of this article.

b. Any taxpayer to whom a credit has been transferred may use such credit for the taxable year in which the transfer occurred and unused amounts may be carried forward to succeeding taxable years, but in no event may such transferred credit be used more than 11 years after it was originally issued by the Department or in any taxable year of such taxpayer that ended prior to the date of transfer.

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

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

§ 58.1-512.1. Determination of fair market value of donation.

A. Each appraisal estimating the value of any donation upon which credits are to be based shall employ proper methodology and be appropriately supported by market evidence. The Department of Taxation shall establish and make publicly available guidelines that incorporate, as applicable (without limitation), requirements under § 170 (h) of the U.S. Internal Revenue Code of 1986, as amended, and the Uniform Standards of Professional Appraisal Practice (USPAP). The Department shall update the guidelines as necessary as determined by the Tax Commissioner. Such guidelines shall be exempt from the Administrative Process Act (§ 2.2-4000 et seq.) but the Department shall provide for adequate public participation, including adequate notice and opportunity to provide comments on the proposed guidelines.

B. For purposes of any appraisal for a conveyance under the provisions of this article, the value for any structures or other improvements to land shall be determined in accordance with law. For any otherwise qualified donation of a less-than-fee interest under this article, however, no more than 25% of the total credit allowed shall be for reductions in value to any structures and other improvements to land.

C. The fair market value of any property with respect to a qualified donation shall not exceed the value for the highest and best use (i) that is consistent with existing zoning requirements; (ii) for which the property was adaptable and needed or likely to be needed in the reasonably near future in the immediate area in which the property is located; (iii) that considers factors such as, by way of illustration and not limitation, slopes, flood plains, and soil conditions of the property; and (iv) for which existing roads serving the property are sufficient to support commercial or residential development in the event that is the highest and best use proposed for the property. Any appraisal submitted in support of an application for a credit under this article shall include an affidavit by the appraiser that to the best of his knowledge and belief the valuation complies with this section and shall set forth in the affidavit or refer to the specific portion of the appraisal setting forth the facts and basis for this knowledge and belief.

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

A. Any taxpayer claiming a tax credit under this article shall not claim a credit under any similar Virginia law for costs related to the same project. To the extent a credit is taken in accordance with this article, no subtraction allowed for the gain on the sale of (i) land dedicated to open-space use or (ii) an easement dedicated to open-space use under subsection C of § 58.1-322 shall be allowed for three years following the year in which the credit is taken. Any building which serves as the basis, in whole or in part, of a tax credit under this article shall not serve as the basis of the tax credit allowed under § 58.1-339.2 for a period of five years following the donation on which the credit is based; and any building which serves as the basis for the tax credit allowed under § 58.1-339.2 shall not serve as the basis, in whole or in part, for a tax credit under this article for a period of five years following the completion of the rehabilitation project on which the credit is based.

B. Any tax credits that arise under this article from the donation of land or an interest in land made by a pass-through tax entity such as a trust, estate, partnership, limited liability company or partnership,

183 limited partnership, subchapter S corporation or other fiduciary shall be used either by such entity if it is
184 the taxpayer on behalf of such entity or by the member, manager, partner, shareholder or beneficiary, as
185 the case may be, in proportion to their interest in such entity in the event that income, deductions and
186 tax liability pass through such entity to such member, manager, partner, shareholder or beneficiary or as
187 set forth in the agreement of said entity. Such tax credits shall not be claimed by both the entity and the
188 member, manager, partner, shareholder or beneficiary for the same donation.

189 C. 1. Any taxpayer holding a credit under this article may transfer unused but otherwise allowable
190 credit for use by another taxpayer on Virginia income tax returns. A taxpayer who transfers any amount
191 of credit under this article shall file a notification of such transfer to the Department in accordance with
192 procedures and forms prescribed by the Tax Commissioner.

193 2. *A fee of 2% of the value of the donated interest, or \$10,000, whichever is less, shall be imposed*
194 *upon any transfer arising from the sale by any taxpayer of credits under this article and upon the*
195 *distribution of a portion of credits under this article to a member, manager, partner, shareholder or*
196 *beneficiary pursuant to subsection B. Revenues generated by such fees shall be used by the Department*
197 *of Taxation and the Department of Conservation and Recreation for implementation of this article.*

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

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

204 F. A pass-through tax entity, such as a partnership, limited liability company or Subchapter S
205 corporation, may appoint a tax matters representative, who shall be a general partner, member/manager
206 or shareholder, and register that representative with the Tax Commissioner. The Tax Commissioner shall
207 be entitled to deal with the tax matters representative as representative of the taxpayers to whom credits
208 have been allocated or transferred by the entity under this article with respect to those credits. In the
209 event a pass-through tax entity allocates or transfers tax credits arising under this article to its partners,
210 members or shareholders and the allocated or transferred credits shall be disallowed, in whole or in part,
211 such that an assessment of additional tax against a taxpayer shall be made, the Tax Commissioner shall
212 first make written demand for payment of any additional tax, together with interest and penalties, from
213 the tax matters representative. In the event such payment demand is not satisfied, the Tax Commissioner
214 shall proceed to collection against the taxpayers in accordance with the provisions of Chapter 18
215 (§ 58.1-1800 et seq.) of this title.

216 § 58.1-901. Definitions.

217 As used in this chapter, unless the context clearly shows otherwise, the term or phrase:

218 "Decedent" means a deceased person.

219 "Federal credit" means the maximum amount of the credit for state death taxes allowable by § 2011
220 of the United States Internal Revenue Code of 1954, as amended or renumbered, or successor provision,
221 in respect to a decedent's taxable estate. The term "maximum amount" shall be construed as to take full
222 advantage of such credit as the laws of the United States may allow. ~~In no event, however, shall such~~
223 ~~amount be less than the federal credit allowable by § 2011 of the Internal Revenue Code as it existed on~~
224 ~~January 1, 1978.~~

225 "Gross estate" means "gross estate" as defined in § 2031 of the United States Internal Revenue Code
226 of 1954, as amended or renumbered, or the successor provision of the laws of the United States.

227 "Nonresident" means a decedent who was domiciled outside of the Commonwealth of Virginia at his
228 death.

229 "Personal representative" means the personal representative of the estate of the decedent, appointed,
230 qualified and acting within the Commonwealth, or, if there is no personal representative appointed,
231 qualified and acting within the Commonwealth, then any person in actual or constructive possession of
232 the Virginia gross estate of the decedent.

233 "Resident" means a decedent who was domiciled in the Commonwealth of Virginia at his death.

234 "State" means any state, territory or possession of the United States and the District of Columbia.

235 "Taxable estate" means "taxable estate" as defined in § 2051 of the United States Internal Revenue
236 Code of 1954, as amended or renumbered, or the successor provision of the laws of the United States.

237 "Value" means "value" as finally determined for federal estate tax purposes under the laws of the
238 United States relating to federal estate taxes.

239 Any reference in this chapter to the laws of the United States relating to federal estate and gift taxes
240 means the provisions of the Internal Revenue Code of 1954, and amendments thereto, and other
241 provisions of the laws of the United States relating to federal estate and gift taxes, as the same may be
242 or become effective at any time or from time to time.

243 2. That the second enactment of Chapter 940 of the Acts of Assembly of 2005 is amended and
244 reenacted as follows:

2. No donation or portion of a donation of an easement on or other interest in an historic building or a functionally related complex of historic buildings made on or after January 1, 2005, but before ~~July 1, 2006~~ *January 1, 2007*, shall qualify for a land preservation credit under this article unless the building or complex of buildings is individually designated as an historic landmark pursuant to § 10.1-2206.1 for listing in the Virginia Landmarks Register and the easement or other interest imposes restrictions on all exterior surfaces of the building or buildings.

3. That, except as provided in the second enactment of this act, the provisions of this act relating to the Virginia Land Conservation Incentives Act of 1999 (§ 58.1-510 et seq. of the Code of Virginia) shall be applicable to any conveyance of property (or the conveyance of any interest in property) that is made on or after January 1, 2007. In addition, the increase in the carry over period to 10 consecutive taxable years pursuant to subdivision C 1 of § 58.1-512 of the Code of Virginia shall be applicable to any conveyance of property (or the conveyance of any interest in property) made on or after January 1, 2007.

4. That the guidelines required under § 58.1-512.1 of the Code of Virginia pursuant to the provisions of this act shall first be made publicly available no later than December 1, 2006.

5. That the criteria by the Virginia Land Conservation Foundation pursuant to subsection D of § 58.1-512 of the Code of Virginia as provided in the first enactment of this act shall be provided to the Chairmen of the House Committees on Finance and Appropriations and the Senate Committee on Finance no later than December 1, 2006.

6. That the amendment to § 58.1-901 of the Code of Virginia pursuant to the provisions of this act shall apply to estates of persons who die on or after July 1, 2007.

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