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## SENATE BILL NO. 341

## AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Senate Committee on Finance  
on January 27, 2010)

(Patron Prior to Substitute—Senator Hanger)

A *BILL to amend and reenact § 58.1-512 of the Code of Virginia, relating to determining the land preservation tax credit; the Virginia Land Conservation Incentives Act of 1999.*

**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. ~~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%~~ *40 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% of the fair market value of the land or interest in land so conveyed.~~ *Notwithstanding any other provision of this section, if land is currently being used for "production agriculture and silviculture" in an "agricultural operation" then the tax credit herein for such land or interest in such land conveyed shall equal 50 percent of the fair market value of the same, provided that the Department of Conservation and Recreation certifies that such land has onsite operational best management practices, which are reducing the amount of nutrients or sediment entering public waters. For purposes herein, "production agriculture and silviculture" and "agricultural operation" mean the same as those terms are defined in § 3.2-300.*

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. 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.

2. Qualified donations shall include the conveyance 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 United States 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

60 House Committee on Appropriations, House Committee on Finance, and the Senate Committee on  
61 Finance. Qualified donations shall not include the conveyance of a fee interest, or a less-than-fee  
62 interest, in real property by a charitable organization that (i) meets the definition of "holder" in  
63 § 10.1-1009 and (ii) holds one or more conservation easements.

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

69 4. Qualified donations shall be eligible for the tax credit herein described if such donations are made  
70 to the Commonwealth of Virginia, an instrumentality thereof, or a charitable organization described in  
71 § 501(c)(3) of the United States Internal Revenue Code of 1986, as amended, if such charitable  
72 organization (i) meets the requirements of § 509(a)(2) or (ii) meets the requirements of § 509(a)(3) and  
73 is controlled by an organization described in § 509(a)(2).

74 5. The preservation, agricultural preservation, historic preservation or similar use and purpose of such  
75 property shall be assured in perpetuity. In the case of conveyances of a fee interest to a charitable  
76 organization that is a "holder" as defined in § 10.1-1009, the credit shall not be allowed until the  
77 charitable organization agrees that subsequent conveyances of the fee interest in the property will be (i)  
78 subject to a previous conveyance in perpetuity of a conservation easement, as that term is defined in  
79 § 10.1-1009, or subject to the conveyance in perpetuity of an open-space easement, as that term is  
80 defined in § 10.1-1700, or (ii) conveyed to the Commonwealth of Virginia or to a federal conservation  
81 agency. No credit shall be allowed with respect to any subsequent conveyances by the charitable  
82 organization.

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

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

- 91 a. A description of the conservation purpose or purposes being served by the donation;
- 92 b. The fair market value of land being donated in the absence of any easement or other restriction;
- 93 c. The public benefit derived from the donation;
- 94 d. The extent to which water quality best management practices will be implemented on the property;
- 95 and
- 96 e. Whether the property is fully or partially forested and a forest management plan is included in the
- 97 terms of the donation.

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

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

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

119 4. a. Tax credits shall be issued on a calendar year basis, and in no case shall the Department issue  
120 more than the maximum allowed for the calendar year. For donations made in calendar year 2007 the  
121 maximum allowed is \$100 million. The credits shall be issued in the order that each complete

application is received. If more than one application is received at the same time, the credits with respect to those applications shall be issued in the order that the conveyances were recorded in the appropriate circuit court of the Commonwealth. In the event that a credit requires verification of the conservation value by the Department of Conservation and Recreation and such verification has not been received at the time the maximum \$100 million allowed is reached for the calendar year of the donation, such credit shall not be issued for that calendar year but shall be issued in the calendar year 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 4a 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 United States 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, except for any taxpayer affected by the credit limitation for taxable years 2009 and 2010. Such a taxpayer 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 12 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, except for any taxpayer affected by the credit limitation for taxable years 2009 and 2010. Such a taxpayer 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 13 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.

**2. That the provisions of this act shall be applicable to conveyances of donations made on or after July 1, 2010, under the Virginia Land Conservation Incentives Act of 1999 (§ 58.1-510 et seq. of the Code of Virginia).**