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## SENATE BILL NO. 661

Offered January 21, 2010

A *BILL to amend and reenact § 58.1-512 of the Code of Virginia, relating to the verification of the conservation value of certain donations under the Virginia Land Conservation Incentives Act of 1999.*

\_\_\_\_\_  
Patron—Hanger

\_\_\_\_\_  
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. 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.

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 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 by a charitable organization that (i) meets the definition of "holder" in § 10.1-1009 and (ii) holds one or more conservation easements.

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

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

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

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

81 1. The taxpayer shall apply for a credit after completing the donation by submitting a form or forms  
82 prescribed by the Department in consultation with the Department of Conservation and Recreation. If the  
83 application requests a credit of \$1 million or more *or if the donation meets the conditions of subdivision*  
84 *3 c*, then a copy of the application shall also be filed with the Department of Conservation and  
85 Recreation by the taxpayer. The application shall include, but not be limited to:

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

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

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

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

114 c. *If (i) the real property that is the subject of the donation was partitioned from or part of another*  
115 *parcel of land for which tax credit was granted under this article (or an application for tax credit is*  
116 *pending) for such parcel of land or any land partitioned from such parcel of land or any portion thereof*  
117 *within three years of such donation and (ii) the tax credit that would otherwise be allowed to the donor*  
118 *for such donation is at least \$250,000, then no credit under this article shall be issued with respect to*  
119 *such donation described in clause (i) unless the conservation value of the donation has been verified by*  
120 *the Director of the Department of Conservation and Recreation. The Director shall act on applications*

121 *within 90 days of his receipt of a complete application and shall notify the taxpayer and the Department*  
122 *of Taxation of his action.*

123 4. a. Tax credits shall be issued on a calendar year basis, and in no case shall the Department issue  
124 more than the maximum allowed for the calendar year. For donations made in calendar year 2007 the  
125 maximum allowed is \$100 million. The credits shall be issued in the order that each complete  
126 application is received. If more than one application is received at the same time, the credits with  
127 respect to those applications shall be issued in the order that the conveyances were recorded in the  
128 appropriate circuit court of the Commonwealth. In the event that a credit requires verification of the  
129 conservation value by the Department of Conservation and Recreation and such verification has not been  
130 received at the time the maximum \$100 million allowed is reached for the calendar year of the donation,  
131 such credit shall not be issued for that calendar year but shall be issued in the calendar year that the  
132 conservation value of the credit is verified by the Department of Conservation and Recreation.

133 b. Beginning with calendar year 2008, the \$100 million amount contained in subdivision 4a 4 a shall  
134 be increased by an amount equal to \$100 million multiplied by the percentage by which the consumer  
135 price index for all-urban consumers published by the United States Department of Labor (CPI-U) for the  
136 12-month period ending August 31 of the preceding year exceeds the CPI-U for the 12-month period  
137 ending August 31, 2006.

138 5. a. Any taxpayer that has been issued a tax credit by the Department shall be allowed to use such  
139 credit for his or its taxable year that begins in the calendar year for which such credit was issued and  
140 for succeeding taxable years in accordance with the 10 consecutive taxable year carryforward provisions  
141 of this article, except for any taxpayer affected by the credit limitation for taxable years 2009 and 2010.  
142 Such a taxpayer shall be allowed to use such credit for his or its taxable year that begins in the calendar  
143 year for which such credit was issued and for succeeding taxable years in accordance with the 12  
144 consecutive taxable year carryforward provisions of this article.

145 b. Any taxpayer to whom a credit has been transferred may use such credit for the taxable year in  
146 which the transfer occurred and unused amounts may be carried forward to succeeding taxable years, but  
147 in no event may such transferred credit be used more than 11 years after it was originally issued by the  
148 Department or in any taxable year of such taxpayer that ended prior to the date of transfer, except for  
149 any taxpayer affected by the credit limitation for taxable years 2009 and 2010. Such a taxpayer may use  
150 such credit for the taxable year in which the transfer occurred and unused amounts may be carried  
151 forward to succeeding taxable years, but in no event may such transferred credit be used more than 13  
152 years after it was originally issued by the Department or in any taxable year of such taxpayer that ended  
153 prior to the date of transfer.

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

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