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SENATE BILL NO. 403

Offered January 11, 2012

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A *BILL to amend and reenact §§ 58.1-511 and 58.1-512 of the Code of Virginia, relating to land preservation tax credit; working farmers.*

Patron—Hanger

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That §§ 58.1-511 and 58.1-512 of the Code of Virginia are amended and reenacted as follows:
§ 58.1-511. Definitions.

For the purposes of the article:

"Interest in real property" means any right in real property, including access thereto or improvements thereon, or water, including but not limited to an open-space easement or conservation easement, provided such interest complies with the requirements of the U.S. Internal Revenue Code § 170 (h), partial interest, mineral right, remainder or future interest, or other interest or right in real property.

"Land" or "lands" means real property, with or without improvements thereon; rights-of-way, water and riparian rights; easements; privileges and all other rights or interests of any land or description in, relating to or connected with real property.

"Public or Private Conservation Agency" means any Virginia governmental body, or any private not-for-profit charitable corporation or trust authorized to do business in the Commonwealth and organized and operated for natural resources, land conservation or historic preservation purposes, and having tax-exempt status as a public charity under the U.S. Internal Revenue Code of 1986, as amended, and having the power to acquire, hold and maintain land and/or interests in land for such purposes.

"Working farmer" means any person who derives at least 75 percent of his gross income from a farming operation within the Commonwealth as reported on his federal income tax forms the previous year.

§ 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 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 percent of the fair market value of the land or interest in land so conveyed. *For such conveyances made on or after January 1, 2013, the tax credit shall be 50 percent of the fair market value of the land or interest in land if the taxpayer making the conveyance is a working farmer, and 40 percent of the fair market value of the land or interest in land for all other conveyances.*

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

59 2000 taxable years, \$75,000 for 2001 taxable years, \$100,000 for each of 2002 through 2008 taxable
60 years, \$50,000 for each of 2009, 2010, and 2011 taxable years, and \$100,000 for 2012 taxable years and
61 for each taxable year thereafter. In addition, for each taxpayer, in any one taxable year the credit used
62 may not exceed the amount of individual, fiduciary or corporate income tax otherwise due. Any portion
63 of the credit that is unused in any one taxable year may be carried over for a maximum of 10
64 consecutive taxable years following the taxable year in which the credit originated until fully expended.
65 A credit shall not be reduced by the amount of unused credit that could have been claimed in a prior
66 year by the taxpayer but was unclaimed. For taxpayers affected by the credit reduction for taxable years
67 2009, 2010, and 2011, any portion of the credit that is unused in any one taxable year may be carried
68 over for a maximum of 13 consecutive taxable years following the taxable year in which the credit
69 originated until fully expended.

70 2. Qualified donations shall include the conveyance of a fee interest in real property or the
71 conveyance in perpetuity of a less-than-fee interest in real property, such as a conservation restriction,
72 preservation restriction, agricultural preservation restriction, or watershed preservation restriction,
73 provided that such less-than-fee interest qualifies as a charitable deduction under § 170(h) of the United
74 States Internal Revenue Code of 1986, as amended.

75 The Department of Conservation and Recreation shall compile an annual report on qualified
76 donations of less-than-fee interests accepted by any public or private conservation agency in the
77 respective calendar year and shall submit the report by December 1 of each year to the Chairmen of the
78 House Committee on Appropriations, House Committee on Finance, and the Senate Committee on
79 Finance. In preparing such report, the Department of Conservation and Recreation shall consult and
80 coordinate with the Department of Taxation and the Departments of Forestry and Agriculture and
81 Consumer Services to provide an estimate of the number of acres of land currently being used for
82 "production agriculture and silviculture" as defined in § 3.2-300 that have been protected by qualified
83 donations of less-than-fee interests. This report shall include information, when available, on land
84 qualifying for credits being used for "production agriculture and silviculture" that have onsite operational
85 best management practices, which are designed to reduce the amount of nutrients and sediment entering
86 public waters. In addition, the report shall include information, when available, on riparian buffers, both
87 vegetated/forested buffers and no-plow buffers, required by deed restriction on land qualifying for credits
88 in order to protect water quality. This information shall be reported in summary fashion as appropriate
89 to preserve confidentiality of information. Qualified donations shall not include the conveyance of a fee
90 interest, or a less-than-fee interest, in real property by a charitable organization that (i) meets the
91 definition of "holder" in § 10.1-1009 and (ii) holds one or more conservation easements acquired
92 pursuant to the authority conferred on a "holder" by § 10.1-1010.

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

98 4. Qualified donations shall be eligible for the tax credit herein described if such donations are made
99 to the Commonwealth of Virginia, an instrumentality thereof, or a charitable organization described in
100 § 501(c)(3) of the United States Internal Revenue Code of 1986, as amended, if such charitable
101 organization (i) meets the requirements of § 509(a)(2) or (ii) meets the requirements of § 509(a)(3) and
102 is controlled by an organization described in § 509(a)(2).

103 5. The preservation, agricultural preservation, historic preservation or similar use and purpose of such
104 property shall be assured in perpetuity. In the case of conveyances of a fee interest to a charitable
105 organization that is a "holder" as defined in § 10.1-1009, the credit shall not be allowed until the
106 charitable organization agrees that subsequent conveyances of the fee interest in the property will be (i)
107 subject to a previous conveyance in perpetuity of a conservation easement, as that term is defined in
108 § 10.1-1009, or subject to the conveyance in perpetuity of an open-space easement, as that term is
109 defined in § 10.1-1700, or (ii) conveyed to the Commonwealth of Virginia or to a federal conservation
110 agency. No credit shall be allowed with respect to any subsequent conveyances by the charitable
111 organization.

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

115 1. The taxpayer shall apply for a credit after completing the donation by submitting a form or forms
116 prescribed by the Department in consultation with the Department of Conservation and Recreation. If the
117 application requests a credit of \$1 million or more or if the donation meets the conditions of subdivision
118 3 c, then a copy of the application shall also be filed with the Department of Conservation and
119 Recreation by the taxpayer. The application shall include, but not be limited to:

120 a. A description of the conservation purpose or purposes being served by the donation;

- 121 b. The fair market value of land being donated in the absence of any easement or other restriction;
- 122 c. The public benefit derived from the donation;
- 123 d. The extent to which water quality best management practices will be implemented on the property;
- 124 and

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

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

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

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

148 c. If (i) the real property that is the subject of the donation was partitioned from or part of another
 149 parcel of land and any other portion of such parcel, or any land partitioned from such parcel of land,
 150 has been allowed a tax credit under this article (or an application for tax credit is pending) within three
 151 years of such donation and (ii) the tax credit that would otherwise be allowed to the donor for such
 152 donation is at least \$250,000, then no credit under this article shall be issued with respect to such
 153 donation described in clause (i) unless the conservation value of the donation has been verified by the
 154 Director of the Department of Conservation and Recreation. The Director shall act on applications within
 155 90 days of his receipt of a complete application and shall notify the taxpayer and the Department of
 156 Taxation of his action. Nothing in this subdivision shall be construed or interpreted (a) as allowing
 157 additional tax credit for any land or interest in land previously conveyed for which tax credit has already
 158 been allowed under this article or (b) affecting the validity of any tax credit allowed under this article
 159 for a prior conveyance of any land or interest in land.

160 4. a. Tax credits shall be issued on a calendar year basis, and in no case shall the Department issue
 161 more than the maximum allowed for the calendar year. The maximum amount of credits that may be
 162 issued in a calendar year shall be \$100 million plus any credits previously issued under this article but
 163 subsequently disallowed or invalidated by the Department. Credits previously issued but subsequently
 164 disallowed or invalidated shall be reissued in a subsequent calendar year. All credits shall be issued in
 165 the order that each complete application is received. If within 30 days after an application for credits has
 166 been filed the Tax Commissioner provides written notice to the donor that he has determined that the
 167 preparation of a second qualified appraisal is warranted, the application shall not be deemed complete
 168 until the fair market value of the donation has been finally determined by the Tax Commissioner. The
 169 Tax Commissioner shall make a final determination within 180 days of notifying the donor, unless the
 170 donor has filed an appeal. The donor shall have the right to appeal any decision of the Department in
 171 accordance with the provisions of Chapter 18 (§ 58.1-1800 et seq.). If more than one complete
 172 application is received at the same time, the credits with respect to those applications shall be issued in
 173 the order that the conveyances were recorded in the appropriate circuit court of the Commonwealth. In
 174 the event that a credit requires verification of the conservation value by the Department of Conservation
 175 and Recreation and such verification has not been received at the time the maximum \$100 million
 176 allowed is reached for the calendar year of the donation, such credit shall not be issued for that calendar
 177 year but shall be issued in the calendar year that the conservation value of the credit is verified by the
 178 Department of Conservation and Recreation.

179 b. Beginning with calendar year 2008, the \$100 million amount contained in subdivision 4 a shall be
 180 increased by an amount equal to \$100 million multiplied by the percentage by which the consumer price
 181 index for all-urban consumers published by the United States Department of Labor (CPI-U) for the

182 12-month period ending August 31 of the preceding year exceeds the CPI-U for the 12-month period
183 ending August 31, 2006.

184 5. a. Any taxpayer that has been issued a tax credit by the Department shall be allowed to use such
185 credit for his or its taxable year that begins in the calendar year for which such credit was issued and
186 for succeeding taxable years in accordance with the 10 consecutive taxable year carryforward provisions
187 of this article, except for any taxpayer affected by the credit limitation for taxable years 2009, 2010, and
188 2011. Such a taxpayer shall be allowed to use such credit for his or its taxable year that begins in the
189 calendar year for which such credit was issued and for succeeding taxable years in accordance with the
190 13 consecutive taxable year carryforward provisions of this article.

191 b. Any taxpayer to whom a credit has been transferred may use such credit for the taxable year in
192 which the transfer occurred and unused amounts may be carried forward to succeeding taxable years, but
193 in no event may such transferred credit be used more than 11 years after it was originally issued by the
194 Department or in any taxable year of such taxpayer that ended prior to the date of transfer, except for
195 any taxpayer affected by the credit limitation for taxable years 2009, 2010, and 2011. Such a taxpayer
196 may use such credit for the taxable year in which the transfer occurred and unused amounts may be
197 carried forward to succeeding taxable years, but in no event may such transferred credit be used more
198 than 14 years after it was originally issued by the Department or in any taxable year of such taxpayer
199 that ended prior to the date of transfer.

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

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