

THE
**ANDERSON
VALLEY
LAND
TRUST**
INCORPORATED



P.O. BOX ONE
YORKVILLE, CA 95494

GOOD DIRT

The Newsletter of The Anderson Valley Land Trust
Fall 1993

GREAT NEWS FROM THE IRS FOR LAND CONSERVATION: CHANGES IN THE ALTERNATIVE MINIMUM TAX BENEFIT DONORS OF CONSERVATION EASEMENTS

Just in time for year-end tax planning, the budget bill recently passed by Congress contained a major victory for land conservation. By changing the way gifts of appreciated property are treated under the Alternative Minimum Tax, a provision of the new law eliminated a major impediment to charitable giving that had discouraged many landowners from making gifts of land or easements for conservation. Now, under this tax reform, all qualified conservation gifts of appreciated property are tax deductible at their full fair market value (subject to the annual maximum deduction based on adjusted gross income) whether a donor pays under the regular tax rules or under the Alternative Minimum Tax (AMT).

Join us **Saturday, December 4, from 2 - 4 PM** at the **Scharffenberger Cellars Winery** in Philo to hear a talk by **Robert Coats, Ph.D.**, the noted forest ecologist and hydrologist who is a principal with the San Francisco firm of Philip Williams & Associates. With the great local interest in restoring the health of the Navarro River — for water quality, water quantity, fisheries and recreation — we have invited Dr. Coats to help us understand better **how watersheds work, what benefits they provide, and how different land management impacts watershed functions.**

In this latest in our series of free educational workshops on private land protection options, Anderson Valley Land Trust president, Connie Best, will provide information about **how conservation easements can protect and enhance watershed functioning.** Questions are invited! Delicious refreshments will be served up with this stimulating discussion. Donations to help cover the expense of this workshop are welcome — and are tax-deductible.

The Scharffenberger Winery is located on the east side of Highway 128 in the heart of Philo, with the entrance opposite the BP gas station. Dr. Coats will be speaking in the reception room above the main winery building, just past the tasting room.

Mark your calendar today — don't miss this watershed event!

Many many landowners in our area have seen their property appreciate significantly since their family or business purchased it. Conservation-minded landowners of appreciated property had been severely penalized under the old rules because gifts of such property had been considered a "preference item" under the AMT and as such the donation value was limited to their basis in the property, not the full current fair market value. Worse yet, for some landowners simply the act of donating a conservation easement with significant charitable value would have kicked them into the AMT. Now all this has changed for the best, benefitting landowners and land trusts alike.

Please note our new phone number:

707-895-3616

ATED TO THE VOLUNTARY PRESERVATION
OF THE LAND AND ITS ABUNDANT
NATURAL RESOURCES FOR THE BENEFIT
OF GENERATIONS TO COME.

What is the Alternative Minimum Tax? How is it different from regular income tax?

The AMT is an alternative to the regular method of figuring income tax, designed to ensure that taxpayers cannot have so many tax deductions that they have no taxable income. The AMT tax rate is lower than the regular tax rate, but the AMT taxable income includes several kinds of income, called "preference items," that are not taxed under the regular way of figuring taxes. Therefore, the AMT is a lower tax rate on a higher taxable income. Taxpayers that may be subject to the AMT are required to figure their taxes by both the regular method and the AMT and then pay the IRS whichever tax is greater.

What was the problem with the AMT before this recent change?

Charitable gifts are deductible under the AMT rules, as they are under the regular income tax. However, a tax law passed in 1986 said that the appreciated portion of a gift of appreciated property (such as land, conservation easement or stock) was a "preference item" that had to be included in AMT taxable income. The AMT taxpayer could deduct the entire value of the gift from her income, *but then had to add the appreciation back* into his or her taxable income for the purpose of tax calculations. The net effect was that an AMT taxpayer could not deduct the full fair market value of the gift of appreciated property — only the basis could be deducted, which often limited the deduction to the original cost.

How did that affect land conservation?

Many potential gifts to land trusts of conservation easements or land around the country — and here locally, too — were stalled or lost altogether as a result of this AMT rule. Donors of property with valuable natural qualities worthy of conservation have often owned their land for a long time and thus have a basis that is very low compared with today's fair market value. Many potential donors, while motivated by a conservation ethic, hesitated when they realized that their major gift would in fact bring so small a tax deduction. In addition, because it is often hard to predict until year-end whether a tax-payer will owe the regular tax or AMT, there was much uncertainty, causing further confusion and sometimes the decision not to give at all.

So, how has the 1993 budget act changed the AMT for the better?

This past August Congress repealed the 1986 provision that made appreciated property gifts a tax preference item. Now, once again, all qualified donations of appreciated conservation property and conservation easements are deductible at fair market value whether the donor pays taxes according to the regular tax or the AMT. *Donors of conservation property who pay taxes under the AMT are no longer penalized for their generosity!*

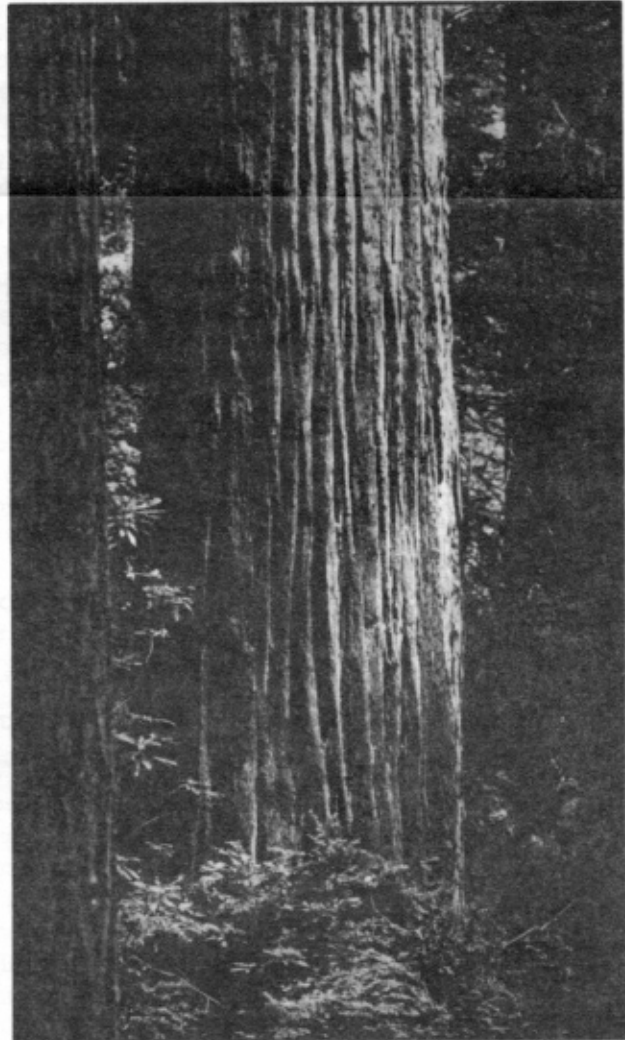


Photo courtesy of Evan Johnson

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Land Trusts' Work Saluted by Board of Supervisors; General Plan Amendment in Preparation

On September 14, 1993, the Mendocino County Board of Supervisors unanimously passed a Resolution "Supporting Nonprofit Land Trusts and the Land Trust Alliance of Mendocino County." We are pleased to share it with you below. In addition to being honored for the recognition by our county government as a nongovernmental partner in land and resource conservation, we are encouraged that the County will in fact pass the proposed General Plan Amendment recognizing the significant public benefit of conservation easements held by land trusts. Inclusion of this new section on land trusts in the General Plan will help our landowner donors receive IRS recognition of the tax deductibility of their easements by making explicit the governmental conservation policies that their easements are supporting.

Mendocino County Board of Supervisors Resolution No. 93-159

WHEREAS, the purposes of the nonprofit land trusts of Mendocino County are to work with willing private landowners to preserve, enhance and restore lands with significant natural resources of public value, including productive agricultural and forestlands; fish, wildlife and plant habitats; natural communities or ecosystems; watersheds; open space; scenic values; public recreation; and historic values;

WHEREAS, the Mendocino County Board of Supervisors and the General Plan of Mendocino County support the same goals for the lands and natural resources of this County; and

WHEREAS, the resource lands of this County are in danger of increasing fragmentation and conversion, which will cause serious adverse environmental and economic effects; and

WHEREAS, the local land trusts of Mendocino County perform their conservation work as a public benefit to the community and at no cost to taxpayers; and

WHEREAS, these local land trusts have joined together under the umbrella of the Land Trust Alliance of Mendocino County to better advance the means of voluntary land and resource conservation;

NOW THEREFORE, the Mendocino County Board of Supervisors recognizes the public benefits of the land conservation work of the County's land trusts and their umbrella organization, the Land Trust Alliance of Mendocino County; especially the holding of conservation easements, acquired from willing private landowners to protect the significant natural resources of their land, consistent with the goals and policies of the General Plan of Mendocino County.

FURTHER, the Mendocino County Board of Supervisors directs the Planning Commission to prepare amendments to the General Plan encouraging the work of land trusts in the protection, enhancement and restoration of the natural resources of the County.

The Land Trust Alliance of Mendocino County joins together all the local land trusts in the county to share information and resources. The current president is Connie Best, AVL's representative to the Alliance. For further information call us at 895-3616.

Please note our new phone number:

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The Holiday Season is Here — Time for Turkeys and Holly and . . . Tax Planning

As another year draws to a close with suitable holiday celebration, it's time to look at your books and add 'em up twice — and to consider the beneficial effect charitable giving can have on your personal bottom line. That bottom line is not only financial — it's moral and emotional as well. Charitable giving is a personal expression of community values.

We get public support for our personal giving through the charitable tax deduction, which allows a donor to deduct up to 50% of his income for cash gifts to charity in any one year — and up to 30% for other gifts such as conservation easements. In fact, if you give a major gift of conservation land and can't use its full value against your current income in the year of the gift, the IRS lets you carry-forward the un-deducted value for up to five additional years (subject to the annual maximum just described).

The recent change in the Alternative Minimum Tax, combined with the increase in the top tax rates for wealthy folks, has increased significantly the value of charitable donations this year. Everyone's tax situation is different, but these changes in the tax law make 1993 a good year to review the benefits possible from the gift of a conservation easement with your tax advisor.

To get a better grasp of the effects of a gift of a conservation easement to the Anderson Valley Land Trust might have on a donor's tax situation, let's look at the following illustration. This example demonstrates the benefits to a landowner of the change in the Alternative Minimum Tax rules for gifts of appreciated property, as well as the effects of the higher marginal tax rates for those with incomes over \$140,000. It is provided courtesy of Stephen J. Small, Esq., an attorney in private practice in Boston who, while working at the IRS, wrote the tax code as it relates to the donation of conservation easements. Steve is also the author of *Preserving Family Lands*, a very good introduction to the tax issues of land conservation gifts which is available from the Anderson Valley Land Trust for \$5.00 plus postage.

Hearty Thanks to our Land Stewards

The Anderson Valley Land Trust is a labor of love — love of our land, of this particular magnificent valley, of the natural resources that sustain us here, and of the careful stewardship of this bounty. The AVLT is a volunteer organization with a growing demand for its services. Our small budget is crucial to our ability to help the landowners who come to us wanting to conserve their property. In addition to our 94 generous contributing members, we are especially pleased to recognize here and thank publicly those who have made annual contributions of \$250 or more to ensure we have the funds to operate. These donors form the circle of AVLT *Land Stewards*, dedicated to the voluntary preservation of the land:

Connie Best
Nessgram Farms
Carroll Pratt

Bill Chambers
Hugo and Bea Oswald
John Scharffenberger
Laurie Wayburn

Todd and Marge Evans
Alan Porter, Esq.
Susannah Schroll
Clare Wheeler

Thank you all! If you would like to make our work your own, join the Anderson Valley Land Trust. Supporting memberships begin at \$15 and all donations are tax-deductible.

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707-895-3616

AN EXAMPLE OF GOOD TAX NEWS FOR EASEMENT DONORS:

Assume that Floyd and Betty have \$200,000 of income and \$40,000 of deductions *without* an easement donation. Let's see what that meant under the old tax law and now under the new law, with its higher rates at the top end. In this example, Floyd and Betty are not subject to the AMT.

Old Law			New Law (without AMT)	
	Years 1-4	Years 5-6		Years 1-6
Income	\$200,000	\$200,000	Income	\$200,000
Deductions	37,157	40,000	Deductions	37,253
Tax Due	42,291	40,925	Tax Due	42,933

Note that the tax is higher but only slightly.

Now, let's assume that Floyd and Betty donate an easement on their ranch worth \$1,000,000 (e.g., they gave up some subdivision rights, dedicated most of the land to agricultural purposes, and limited timber harvesting to a long-term sustainable level). The example assumes that the basis of the easement is determined to be \$40,000; the amount of "basis" (generally, the cost of what was paid for the property) was important for the AMT calculations under the "Old Law." See how much lower the "Tax Due" is with the repeal of the AMT!

Old Law				New Law (without AMT)		
	Years 1-4	Years 2-4	Years 5-6		Year 1	Years 2-6
Income	\$200,000	\$200,000	\$200,000	Income	\$200,000	\$200,000
Deductions	97,157	97,157	100,000	Deductions	97,253	97,253
Regular Tax	23,691	23,691	22,325	Tax Due	23,366	23,360
AMT	24,000	35,400	35,400			
Tax Due	24,000	35,400	35,400			

Total income tax savings with AMT limit on easement value: \$50,014

Total income tax savings when easement gift is made today, without any AMT limit: \$117,432

This simple example shows what a significant difference the new tax law can have for conservation easement donors. Even though this illustration features a couple with a high joint



Photo courtesy of Evan Johnson

income, substantial tax benefits for conservation easement donors are possible for middle income tax payers as well. While the Anderson Valley Land Trust can provide some general guidance for you, it's worth it to "run the numbers" with your accountant or tax planner and see for yourself what advantages there may be for you in a charitable gift of a conservation easement.

Please note our new phone number:

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Thank you!

- | | |
|--|--|
| <input type="checkbox"/> Individual (\$15) | <input type="checkbox"/> Sustainer (\$100) |
| <input type="checkbox"/> Family (\$25) | <input type="checkbox"/> Sponsor (\$500) |
| <input type="checkbox"/> Supporter (\$50) | <input type="checkbox"/> Charter (\$1000) |

Membership Category:

Name: _____
 Mailing Address: _____
 City: _____ State: _____ Zip: _____
 Phone: _____

_____ I want to contribute to the preservation of the natural heritage of our valley by supporting the Anderson Valley Land Trust.
 _____ Yes! I want to learn more about the Anderson Valley Land Trust and private land conservation. Please send me additional information.
 _____ I want to volunteer my time to work with the Anderson Valley Land Trust.

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