

Iowa Tax Credit for Charitable Contributions of Conservation Lands

More Iowans would permanently protect their land if they believed they could afford to do so.

Fortunately, federal and state tax laws reward conservation donors who protect public values like clean water, scenic views and wildlife habitat.

Iowa's tax credit provides so much value that full or partial donations for conservation purposes can, in some cases, bring landowners nearly as much financial return as a sale.

Iowa law allows state taxpayers to claim a substantial Iowa tax credit when they donate one of the following to a qualified conservation organization:

- land for conservation, scenic value, outdoor education, and/or recreation purposes, or preservation of historically important land or structures.
- conservation easements.
- land value (through "bargain sale" to a conservation entity).

Take credit for conservation donations

Iowans can claim an itemized deduction on both state and federal income taxes for a donation of land for conservation. You can also claim a state tax credit (see box on back) — **plus you can still claim your federal itemized deduction.**

A donation valued at \$200,000 would give you the maximum tax credit of \$100,000. If your donation exceeds that value, you can then claim an Iowa itemized deduction for the remaining value.

State and federal tax benefits can make land donations surprisingly affordable.

Landowners may be eligible to receive:

- A tax credit of up to 50% of the fair market value of the donated real property interest.
- A maximum tax credit of \$100,000 per donation
- Up to a 20 -year "carry-over." Any credit that exceeds your tax liability for the tax year may be credited to next year's taxes.

What kind of land donation qualifies?

- Must be land in Iowa.
- Must be "conveyed as an unconditional charitable donation in perpetuity to a qualified organization exclusively for conservation purposes." These definitions align with the federal IRS rules for donating land or land value for conservation.

What if the land is not owned solely by me as an individual?

Individuals may claim the credit for donating land held in a partnership, a limited liability company, S corporation, or an estate or trust that elects to have the income taxed directly to the individual. The amount you can claim is based on your pro-rata share of your earnings of the partnership, limited liability company, S corporation, estate or trust.



Consult your attorney or tax advisor for legal or professional advice for your situation. This factsheet is provided for information by the Iowa Natural Heritage Foundation, www.inhf.org, 800-475-1846. For more case studies, rules and regulations, and other information about a variety of land protection options, see www.inhf.org/landowners-options.cfm

Tax Credit vs. Itemized Deduction

Iowa donors are finding the Iowa tax credit much more beneficial than the itemized deduction. Why?

- Tax credits are subtracted directly from the tax you owe – dollar for dollar.
- An itemized deduction reduces the amount of income on which your tax is calculated. Its value depends upon your income tax bracket.

Details for tax preparers

The Iowa tax credit for donations of conservation land is referenced in the Iowa Administrative Code, Rule 701-42.40 (Iowa Code Section 422.11W) for individuals and 701-52.37 (422.33) for corporations. Qualified conservation contributions are defined in US Code 170(h). For a summary and more details, see the INHF website at: www.inhf.org/iataxcredit_rules.cfm

Examples of Tax Credit Savings

Donated land value under \$200,000

You donate land valued at \$150,000 to a qualified entity, such as the Iowa Natural Heritage Foundation:

Iowa Tax Credit. You can claim an Iowa tax credit of \$75,000 (half of \$150,000).

Federal Deduction. You can still claim an itemized deduction of \$150,000 as a charitable contribution on your federal income tax.

Carry forward. If you cannot use the entire tax benefit this year, you can carry the value of the Iowa tax credit forward up to 20 years (the year of the gift plus 19 more years). You can carry the federal deduction forward up to six years (the year of the gift plus five more years).

The bottom line

Remember, it is not just how much you receive in a transaction that matters. What ultimately counts is how much you get to keep after taxes.

Few conservation donors are motivated solely by tax savings. Every situation is unique, but most landowners explore conservation options because they want to permanently protect land they know and cherish. Or they desire to leave as a legacy a special place where others can enjoy the outdoors far into the future. Tax savings simply make such choices easier.

Donated land value exceeds \$200,000

You donate land valued at \$500,000 to a qualified entity, such as the Iowa Natural Heritage Foundation:

Iowa Tax Credit. You can count \$200,000 of your donation toward your Iowa income tax credit — so you claim the maximum \$100,000 tax credit (50% of \$200,000). You **cannot** claim 50% of your donated value (\$250,000) as an Iowa tax credit — because the maximum tax credit is \$100,000.

Iowa Deduction. You could then calculate the *remaining* value of your donation (\$500,000 minus \$200,000) and claim a \$300,000 itemized deduction in addition to your tax credit.

Federal Deduction. Meanwhile, you can claim the full \$500,000 as an itemized deduction on your federal tax return.

Carry forward. If you cannot use the entire tax benefit this year, you can carry the value of the Iowa tax credit forward up to 20 years (the year of the gift plus 19 more years). You can carry the federal deduction forward up to six years (the year of the gift plus five more years).

Case Study of land transactions & tax consequences

When considering your options financially, keep the real bottom line in mind – including tax benefits. For this case study, assume that Joe and Mary Landowner want to protect the land that’s appraised at \$300,000 value with a \$100,000 basis. Their annual income is \$90,000, which puts them in a 25% federal tax bracket and the 8.98% state tax bracket.

	Fair Market Sale	Bargain sale (20% discount)	Full donation
Sale Price	\$300,000	\$240,000	\$0
Federal capital gains taxes paid (15% tax paid on any sale value over the \$100,000 basis. However, in the case of the 20% discount, the basis is proportionately decreased to \$80,000.)	-\$30,000	-\$24,000	-\$0
Iowa capital gains tax paid (rate matches your Iowa income tax rate, in this case 8.98%, paid on any sale value over basis)	-\$17,960	-\$14,368	-\$0
Federal income tax savings (25% tax savings for the donated value)	+\$0	+\$15,000	+\$75,000
Iowa income tax savings (Iowa tax credit = 50% of donated value; maximum credit = \$100,000)	+\$0	+\$30,000	+\$100,000
(Iowa itemized deduction for remaining value of full donation = 8.98% of \$100,000)	+\$0	+\$0	+8,980
After-tax proceeds	\$252,040	\$246,632	\$183,980

Landowners stand to reap major tax savings when they protect their land!

In this example, Joe and Mary received substantial income tax savings that make land protection affordable for them.

- Full donation actually “costs” this family just \$68,060 (about 23% of the land’s value!).
- Joe and Mary’s real bottom line is nearly the same on a 20% bargain sale as it is with a sale at fair market value (only \$5,408 difference)!
- Also, with a bargain sale, the landowners could receive donor recognition at the project site – and with a full donation, possibly name the site as a personal or family legacy!



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