

CHEBEAGUE & CUMBERLAND LAND TRUST APPRAISAL FACT SHEET

What is the purpose of an appraisal of a conservation easement?

The monetary value of a conservation easement is the market value of those property rights and restrictions conveyed by a landowner to a land trust. An appraisal estimates the value of those rights by calculating the impact of the easement on the value of the protected property.

The appraisal may have several uses. For charitable contribution purposes, the appraised value of the easement is used to determine the amount of the income tax deduction for the property owner. In this case, the appraisal procedure and report must conform to specific IRS standards. (Treasury Regulations §1.170A-13(c) and §1.170A-14(h).) For the property owner, an appraisal may also be important for financial estate planning or in reviewing value for property tax purposes. For the Land Trust, an appraisal may be used to substantiate the purchase price

Is an appraisal required to complete a conservation easement with the Land Trust?

Not necessarily. A landowner is required to obtain an appraisal if the landowner is donating a conservation easement and intends to seek a charitable income tax deduction for the gift. A landowner may also need an appraisal to obtain consent for the easement from the landowner's lender or to support a request for a property tax adjustment. Often an appraisal is required if grant money is being used to support the land trust's costs related to the project. In other situations, an appraisal may not be necessary.

In the case that an appraisal is required, the appraisal must meet the standards of a "qualified appraisal" as defined in the IRS Publication 561, Determining the Value of donated Property (<http://www.irs.gov/pub/irs-pdf/p561.pdf>).

How does an appraiser estimate the value of a conservation easement?

Typically, an appraiser determines the value of an easement by comparing the value of the property without the easement restrictions in place and the value of the property with the restrictions in place. The difference is the value of the easement itself.

As a simple example: Value of the land before the conservation easement:	\$500,000
Value of the land after the conservation easement:	<u>\$275,000</u>
Difference = value of the conservation easement:	\$225,000
Proportionate value of the conservation easement:	45%

Generally, a more restrictive easement will result in a higher proportionate easement value. But each parcel of land and each set of conservation restrictions are unique. Therefore, no set or average percentage of value can be attributed to the rights relinquished in an easement.

What does an appraiser look at to estimate the value of a conservation easement?

An appraiser will look at a variety of factors concerning both the specific property subject to the easement and the surrounding area. Relevant factors will include the location and character of the property, existing zoning regulations and future land use trends. The appraiser will need to understand the specific restrictions placed on the land and the rights reserved by the landowner

in the easement. Finally, the appraiser will need to evaluate the potential of the conservation easement to enhance the value of any contiguous or other property owned by the landowner or the landowner's family.

When should the appraisal be done?

For charitable deduction purposes, the appraisal must be completed no earlier than 60 days before the date of the gift (the date on which the conservation easement is signed and accepted by the Land Trust) and no later than the date on which the tax return for that year is due. In some circumstances, an older appraisal can be updated.

It is wise to contact an appraiser early in the process as it may take up to 4 to 6 months to complete an appraisal.

How much do most conservation easement appraisals cost?

Appraisal costs vary dramatically, often depending upon the complexity of the conservation easement. In Maine, appraisals currently (2010) range from \$5,000 to as high as \$10,000 or more. The fee for the appraisal may be deductible if the appraisal is being used to value the easement for income tax purposes. NOTE: An appraiser should never base a fee upon a percentage of the appraised value.

Why are the appraisals so expensive and why do they take so long?

Conservation easement appraisals are complicated. They often require a high degree of analysis, extensive research and a considerable investment of time to ensure the accuracy of both the “before easement” and “after easement” value of the property. The time of year, accessibility of the property and the availability of the appraiser may also have an impact.

Are all appraisers qualified to complete a conservation easement appraisal?

There are no specific credentials required for appraising conservation easements but not all appraisers are familiar with the unique nature of these easements or have experience appraising them. In selecting an appraiser, consider:

- The IRS definition of a qualified appraiser as presented in Publication 561, Determining the Value of donated Property (<http://www.irs.gov/pub/irs-pdf/p561.pdf>)
- The appraisers’ experience with conservation easements. Has the appraiser taken classes specifically targeting conservation easement appraisals? Knowledge and experience are essential.
- How much will the appraisal cost? The cost should reflect the complex nature of this work.

NOTE: Reputable appraisers will disclose in advance any lack of experience with or knowledge about conservation easement appraisals.

A relative of mine is an appraiser. Can that relative appraise my conservation easement?

The purpose of an appraisal is to obtain an independent assessment of the value of the easement. Therefore, an appraiser should not have an interest in the land, or be related to the landowner or

the transaction in any way. IRS regulations further specifically prohibit appraisals by immediate family members or their spouses.

Is it necessary to be concerned about the appraisal process?

The IRS views this issue very seriously and may impose substantial penalties on both the landowner and the appraiser for gifts that are overvalued for tax purposes. Landowners are well advised to choose an appraiser carefully and to work with the appraiser, a tax advisor and the Land Trust throughout the process of completing a conservation easement.

Reference: Minnesota Land Trust Appraisal Fact Sheet, IRS regulations and publication 561