

Reducing Pennsylvania Inheritance Tax

In Pennsylvania, death triggers a state inheritance tax on the distribution of the deceased person’s assets (called the “estate”) to the beneficiaries of the estate. Conservation restrictions on land included in the estate can reduce the inheritance tax owed.

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Summary

In Pennsylvania, land that is perpetually restricted by a conservation easement is valued at its restricted value for state inheritance tax purposes.

The value of land restricted by an agricultural conservation easement can be reduced by 50% for state inheritance tax purposes.

The value of land enrolled in the Clean and Green preferential taxation program is its agricultural use value for state inheritance tax purposes.

Pennsylvania Inheritance Tax Rates

The [rates](#) used to calculate Pennsylvania inheritance tax vary depending upon the relationship of the beneficiary to the decedent. The rate for a surviving spouse is 0%; lineal relationships (up to parents or down to children) -- 4.5%; siblings -- 12%; others -- 15%. These rates are applied to the value of the property of the estate passing to each class of beneficiaries.

Reduction in Value of Land from Conservation Easements in General

When land subject to a [conservation easement](#) is valued for Pennsylvania inheritance tax purposes, the restrictions on subdivision, construction of improvements, and activities and uses imposed by the [conservation easement](#) are taken into consideration. The reduction in appraised value resulting from conservation restrictions can result in significant savings in the tax that family members or other beneficiaries would otherwise pay upon inheriting land located in Pennsylvania.

Reduction in Value of Land under Agricultural Conservation Easement

A 2006 amendment of the Pennsylvania [Inheritance and Estate Tax Act](#) (see [Section 9 of Act 67](#)) provides a 50% reduction in valuation for inheritance tax purposes of land subject to an agricultural conservation easement as defined in the [Agricultural Area Security Law](#). This reduction applies to the value otherwise determined under the [Inheritance and Estate Tax Act](#), which may be the “use value” described in the “Clean and Green” section below.

Agricultural conservation easements [purchased under the program](#) instituted under the [Agricultural Area Security Law](#) are, of course, eligible for the 50% reduction provided by Act 67. Other conservation easements may also qualify if they meet the requirements of the definition provided in §903 of the [law](#):

“AGRICULTURAL CONSERVATION EASEMENT.” An interest in land, less than fee simple, which interest represents the right to prevent the development or improvement of a parcel for any purpose other than agricultural production. The easement may be granted by the owner of the fee simple to any third party or to the Commonwealth, to a county governing body or to a unit of local government. It shall be granted in perpetuity as the equivalent of covenants running with the land. The exercise or failure to exercise any right granted by the easement shall not be deemed to be management or control of activities at the site for purposes of enforcement of the act of October 18, 1988 (P.L. 756, No. 108), known as the “Hazardous Sites Cleanup Act.

The [Model Grant of Conservation Easement](#) published by the Pennsylvania Land Trust Association gives the easement holder the right to prevent the development or improvement of areas identified as “Highest Protection Area” for any purpose, and the

right to prevent the development or improvement of areas identified as “Standard Protection Area” for any purpose other than sustainable agricultural purposes, sustainable forestry purposes and recreational uses. The possibility that the owner could grow and harvest hardwoods and other forest and nursery products within the Standard Protection Area should not disqualify the [Model Grant of Conservation Easement](#) as an agricultural conservation easement as defined by the [law](#). The [Agricultural Area Security Law](#) defines “agricultural commodities” to include timber, wood and other wood products derived from trees. If the possibility of recreational use within the Standard Protection Area would disqualify an otherwise conforming conservation easement for purposes of Act 67, then that possibility can be removed from the conservation easement.

Designation of a “Minimal Protection Area” to accommodate residential use under the [model](#) is also consistent with its qualification as an agricultural conservation easement for purposes of Act 67. Agricultural conservation easements purchased under the Pennsylvania Department of Agriculture’s [Agricultural Conservation Easement Purchase Program](#) may include at least one residential area. Presumably, inclusion of a Minimal Protection Area for the same purposes should not disqualify, for purposes of Act 67, a conservation easement based upon the [Model Grant of Conservation Easement](#).

Reduction in Value of Land Enrolled in Clean and Green

Whether or not restricted by conservation easement, [§2122\(b\)](#) of the [Inheritance and Estate Tax Act](#) affords an opportunity to reduce taxes otherwise due upon inheritance of land if it has been enrolled in the “[Clean and Green](#)” program instituted under [Act 319 of 1974](#). The land is valued at its use value, set annually by the Pennsylvania Department of Agriculture, rather than its appraised value for inheritance tax purposes. The “use value” is typically much lower than fair market value.

Related Guides

[Agricultural Conservation Easement Purchase Program](#)
[Clean and Green](#)
[Conservation Easement](#)
[Donation by Will](#)
[Reducing Federal Estate Tax](#)

Library

Related Library Categories at ConservationTools.org

NA

Featured Library Items at ConservationTools.org

- [Inheritance and Estate Tax Act \(PA\)](#)
- [Agricultural Area Security Law \(as amended through 2006\)](#)

- [Act 149 of 1988 \(amends Agricultural Area Security Law\)](#)
- [Act 67 amending the Inheritance and Estate Tax Act.](#)
- [Pennsylvania Farmland and Forest Land Assessment Act of 1974: Act 319](#)

Experts

[Patricia L. Pregmon, Esq.](#)

Pregmon authored this guide. She has helped scores of clients meet their needs.

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Submit Comments and Suggestions

The Pennsylvania Land Trust Association would like to know your thoughts about this guide: Did we miss issues? Do any subjects need clarification or expansion? Other concerns? Please contact Andy Loza at 717-230-8560 or aloza@conserveland.org with your thoughts. Thank you.

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