



# FACT SHEET

## AGRICULTURAL CONSERVATION EASEMENTS



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### DESCRIPTION

A conservation easement is a deed restriction landowners voluntarily place on their property to protect resources such as productive agricultural land, ground and surface water, wildlife habitat, historic sites or scenic views. They are used by landowners (“grantors”) to authorize a qualified conservation organization or public agency (“grantee”) to monitor and enforce the restrictions set forth in the agreement. Conservation easements are flexible documents tailored to each property and the needs of individual landowners. They may cover an entire parcel or portions of a property. The landowner usually works with the prospective grantee to decide which activities should be limited to protect specific resources. Agricultural conservation easements are designed to keep land available for farming.

### RESTRICTIONS

In general, agricultural conservation easements limit subdivision, non-farm development and other uses that are inconsistent with commercial agriculture. Some easements allow lots to be reserved for family members. Typically, these lots must be small—one to two acres is common—and located on the least productive soils. Agricultural conservation easements often permit commercial development related to the farm operation and the construction of farm buildings. Most do not restrict farming practices, although some grantees ask landowners to implement soil and water conservation plans. Landowners who receive federal funds for farm easements must implement conservation plans developed by the USDA Natural Resources Conservation Service.

### TERM OF THE RESTRICTIONS

Most agricultural conservation easements are permanent. Term easements impose restrictions for a specified number of years. Regardless of the duration of the easement, the agreement is legally binding on future landowners for the agreed-upon time period. An agricultural conservation easement can be modified or terminated by a court of law if the land or the neighborhood changes and the conservation objectives of

the easement become impossible to achieve. Easements may also be terminated by eminent domain proceedings.

### RETAINED RIGHTS

After granting an agricultural conservation easement, landowners retain title to their property and can still restrict public access, farm, use the land as collateral for a loan or sell their property. Land subject to an easement remains on the local tax rolls. Landowners continue to be eligible for state and federal farm programs.

### VALUATION

Landowners can sell or donate an agricultural conservation easement to a qualified conservation organization or government body. In either case, it is important to determine the value of the easement to establish a price or to calculate tax benefits that may be available under federal and state law. The value of an agricultural conservation easement is generally the fair market value of the property minus its restricted value, as determined by a qualified appraiser. In general, more restrictive agreements and intense development pressure result in higher easement values.

### TAX BENEFITS

Grantors can receive several tax advantages. Donated agricultural conservation easements that meet Internal Revenue Code Section 170(h) criteria are treated as charitable gifts. Term easements do not qualify. Donors can deduct an amount equal to up to 30 percent of their adjusted gross income in the year of the gift. Corporations are limited to a 10-percent deduction. Easement donations in excess of the annual limit can be applied toward federal income taxes for the next five years, subject to the same stipulations. Most state income tax laws provide similar benefits. Nine states offer income tax credits for easement donations.

Some state tax codes direct local tax assessors to consider the restrictions imposed by a conservation easement. This provision generally lowers property taxes on restricted parcels if the land is

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not already enrolled in a differential assessment program. Differential assessment programs direct local tax assessors to assess land at its value for agriculture or forestry, rather than its “highest and best” use, which is generally for residential, commercial or industrial development.

The donation or sale of an agricultural conservation easement usually reduces the value of land for estate tax purposes. To the extent that the restricted value is lower than the fair market value, the estate will be subject to a lower tax. In some cases, an easement can reduce the value of an estate below the level that is taxable, effectively eliminating any estate tax liability. However, as exemption levels increase, there may be less incentive from an estate tax perspective.

Recent changes to federal estate tax law, enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001, expanded an estate tax incentive for landowners to grant conservation easements. The new law removes geographic limitations for donated conservation easements eligible for estate tax benefits under Section 2031(c) of the tax code. Executors can elect to exclude 40 percent of the value of land subject to a donated qualified conservation easement from the taxable estate. This exclusion is limited to \$500,000. The full benefit offered by the new law is available for easements that reduce the fair market value of a property by at least 30 percent. Smaller deductions are available for easements that reduce property value by less than 30 percent.

### HISTORY

Forty-eight states have a law pertaining to conservation easements. The National Conference of Commissioners on Uniform State Laws adopted the Uniform Conservation Easement Act in 1981. The Act served as a model for state legislation allowing qualified public agencies and private conservation organizations to accept, acquire and hold less-than-fee simple interests in land for the purposes of conservation and preservation. Since the Uniform Conservation Easement Act was approved, 21 states and the District of Columbia have adopted conservation easement enabling laws based on this model; 27 states have drafted

and enacted their own enabling laws.\* Accepting donated conservation easements is one of the major activities of land trusts. Land trusts exist in all 50 states. They monitor and enforce the terms of easements. Some also purchase conservation easements.

### BENEFITS

- Conservation easements permanently protect important farmland while keeping the land in private ownership and on local tax rolls.
- Conservation easements are flexible, and can be tailored to meet the needs of individual farmers and ranchers and unique properties.
- Conservation easements can provide farmers with several tax benefits including income, estate and property tax reductions.
- By reducing non-farm development land values, conservation easements help farmers and ranchers transfer their operations to the next generation.

### DRAWBACKS

- While conservation easements can prevent development of agricultural land, they do not ensure that the land will continue to be farmed.
- Agricultural conservation easements must be carefully drafted to ensure that the terms allow farmers and ranchers to adapt and expand their operations and farming practices to adjust to changing economic conditions.
- Donating an easement is not always a financially viable option for landowners.
- Monitoring and enforcing conservation easements requires a serious commitment on the part of the easement holder.
- Subsequent landowners are not always interested in upholding easement terms.
- Conservation easements do not offer protection from eminent domain. If land under easement is taken through eminent domain, both the landowner and the easement holder must be compensated.

\* Sources: Uniform Law Commissioners and the Land Trust Alliance.

For additional information on farmland protection and stewardship contact the Farmland Information Center. The FIC offers a staffed answer service, online library, program monitoring, fact sheets and other educational materials.

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