



# Natural Resources Conservation

**Yukon Property Consultants, LLC**

# Tax Credits Available in Georgia

- Historic Tax Credits
- Film Tax Credits
- Low Income Housing Tax Credits
- Conservation Credits

# Georgia Conservation Tax Credit Program

- The Georgia Conservation Tax Credit Program was created in 2006 to encourage landowners to dedicate their property for conservation uses.
- Incentive is provided as (i) state income tax credits and (ii) federal income tax deductions in the tax year of the donation and/or carried forward in subsequent years.
- The conservation easement deduction program is government sponsored and promoted.

# Why Invest in Conservation Credits?

- **Provides significant financial return** in the form of tax credits and tax deductions.
- **Helps to conserve land**, rivers, streams, wildlife, and other natural resources.
- **Retires debt** on problem assets held by Banks and Investor's.
- **Socially Responsible** as the highest form of preservation, the easement ensures that the character of the property is maintained for future generations.

# Creating Conservation Tax Benefits

- Property certification process is managed through Department of Natural Resources.
- Land owner voluntarily restricts use of property by recording a conservation easement.
- The use restriction's reduction of the property's value creates the state tax credit and the federal tax deduction.
- Credits and deductions are “monetized” by inviting investors into entity and distributing tax benefits.

# State Tax Credits vs. Federal Tax Deductions

- Conservation state tax credits provide a dollar-for-dollar state tax reduction.
- Nominal value of state credit is 25% of the value of the conservation easement up to \$1 million.
- Federal tax deductions for conservation are treated like a charitable donation.
- Nominal value of deduction is calculated as contribution value x marginal tax rate of tax payer.

# Difference Between Credits & Deductions

- \$1 of credit reduces \$1 of taxes owed by \$1.
- \$1 of deduction reduces \$1 of taxes owed by the applicable tax rate (i.e. 40%).

	<u>Credit</u>	<u>Deduction</u>
Gross Income	\$1,000,000	\$1,000,000
Less Deduction	--	(\$100,000)
Adjusted Income	\$1,000,000	\$900,000
Taxes @ 40%	\$400,000	\$360,000
Less: Conservation Credits	(\$100,000)	--
Taxes Owed	\$300,000	\$360,000

# Conservation-Eligible Land

- Property must have legitimate conservation purpose.
  1. Water quality protection for rivers, streams, and lakes;
  2. Flood protection;
  3. Wetlands protection;
  4. Reduction of erosion through protection of steep slopes, areas with erodible soils, and stream banks;
  5. Protection of riparian buffers and other areas that serve as natural habitat and corridors for native plant and animal species;
  6. Protection of prime agricultural and forestry lands;
  7. Protection of cultural sites, heritage corridors, and archaeological and historic resources;
  8. Scenic protection;
  9. Provision of recreation in the form of boating, hiking, camping, fishing, hunting, running, jogging, biking, walking, and similar outdoor activities; and
  10. Connection of existing or planned areas contributing to the goals set out in this paragraph.

# Process: Pre-Certification

- Upon identification of qualified purpose, seek pre-certification from DNR.
- Assemble project team: Tax lawyer, CPA, Certified appraiser, Biologist, and Land Planner.
- Identify “Qualified Organization” or Land Trust to become conservation steward.

# Process: Pre-Certification

- Perform baseline study of property's natural resources.
- Appraise conservation easement value.
- Draft conservation easement.
- File for pre-certification approval from DNR.

# Process: Disposition Plan

- Create overall property disposition plan to accomplish client's objectives.
- Reorganize the holding company to assure tax benefit absorption.

# Process: Harvest Tax Benefits

- Recapitalize entity with new investors.
- Record restricted deed and donate to acceptable state, county, municipality, or bona fide charitable nonprofit organization.
- Donate property in fee simple, sell at a reduced price, or donate a conservation easement.
- Provide DNR and Land Trust evidence of clear title.
- Issue entity's K-1 schedules to members, thereby dispersing tax credits and tax deductions.

# Use of Georgia Tax Credits

- Limited Liability Companies are limited to a \$1 million credit in any given year on a single easement.
- Individual tax payers are limited to \$250,000 and partnerships can use up to \$500,000.
- Tax Credits can carry forward for 10 years.
- Maximum of 10 members can be part of the LLC.

# Use of Federal Tax Deductions

- The tax payer may deduct up to 50% of his (or his entity's) adjusted gross income in any one year.
- Tax deductions can carry forward for up to 15 years.
- The federal tax deduction does not trigger alternative minimum tax.

# Risks

- IRS can audit for three years following process.
- Risk is primarily that of valuation, which is mitigated by the fact that MAI certified and all YPC projects must include an appraisal performed by a Certified Appraiser, who has experience in appraising the type of property to be acquired (farm, recreational, conservation easement, timber, etc).

# Valuation Methodology

- Pricing is generally described as the nominal % of benefit (“Cents per Tax Credit Dollar”).
- Internal Rate of Return can be used to compare to other investment alternatives.
- IRR depends greatly on how quickly credits and deductions are used.

# Investor Returns

Value of Conservation Easement:	<b>\$4,000,000</b>
Purchase Price as % of Benefits:	<b>85.0%</b>
Ga. State Tax Credit % (max \$1MM):	25%
Federal Marginal Tax Rate:	34%
State Marginal Tax Rate:	6%
Closing Cost % of Price:	0.5%
Placement Fee % of Easement Value:	3.0%

## NOMINAL TAX BENEFIT AMOUNTS

State Tax Credit Amount:	\$1,000,000
Federal Tax Deduction:	<u>\$1,600,000</u>
Total Nominal Tax Benefit:	\$2,600,000

## INITIAL INVESTMENT

Purchase Price:	\$2,210,000
Closing Costs:	\$11,050
Placement Fee:	<u>\$120,000</u>
Total Initial Investment:	\$2,341,050

## INCOME SHIELD

Maximum Federal Income Shielded:	\$4,705,882
Maximum State Income Shielded:	\$16,666,667
Nominal Tax Savings for Investor:	\$258,950

## INTERNAL RATES OF RETURN

3 Month IRR	42.7%
6 Month IRR	21.2%


# Yukon Property Consultants, LLC

- Yukon Property Consultants, LLC (YPC) employs experts in the science of land conservation who are regionally recognized authorities in the use of statutory incentives available to land owners.
- YPC is currently working with numerous Georgia banks creating conservation tax benefits.
- Contact Information
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# Yukon Property Consultants Conservation Process for NON-REO Properties

- NEW CO LLC
- Owner of Land
- Has Debt
- Needs exit strategies

NEW CO  
DEVELOPMENT  
PARTNERSHIP




- BANK OF THE GREAT SOUTH
- Bank holds loan with New Co LLC
- Loan is non performing
- Needs exit strategies

BANK OF THE  
GREAT SOUTH



- TAX PAYER
- Has Tax liability State and Federal
- Looking for ways to mitigate taxes owed

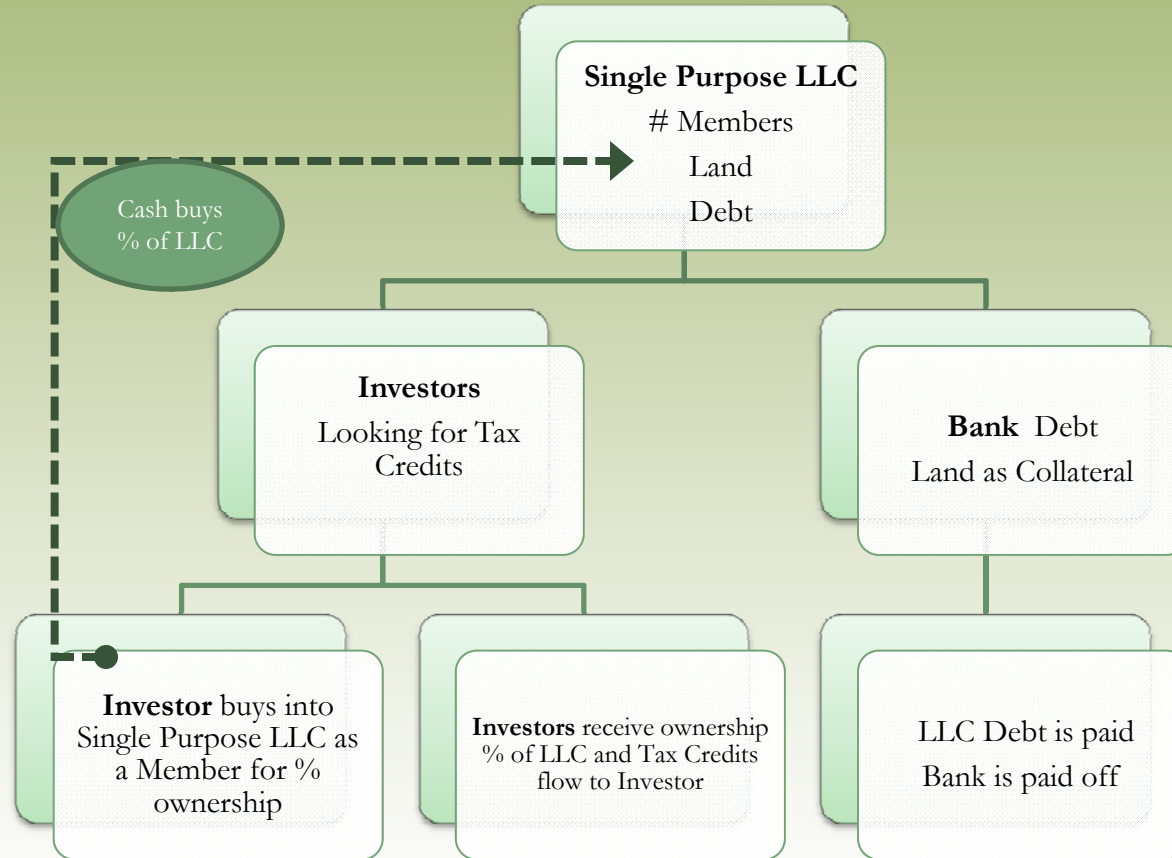
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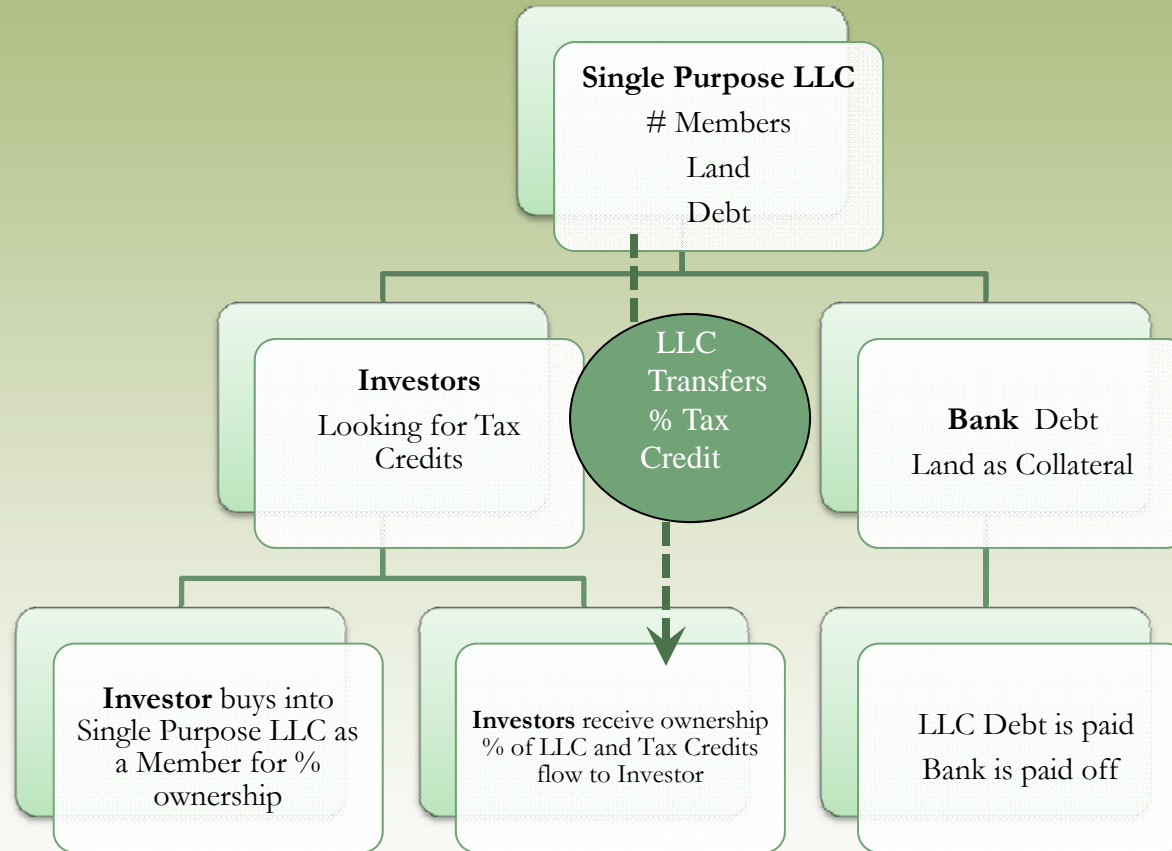
## Yukon Property Consultants Investor Flow Chart



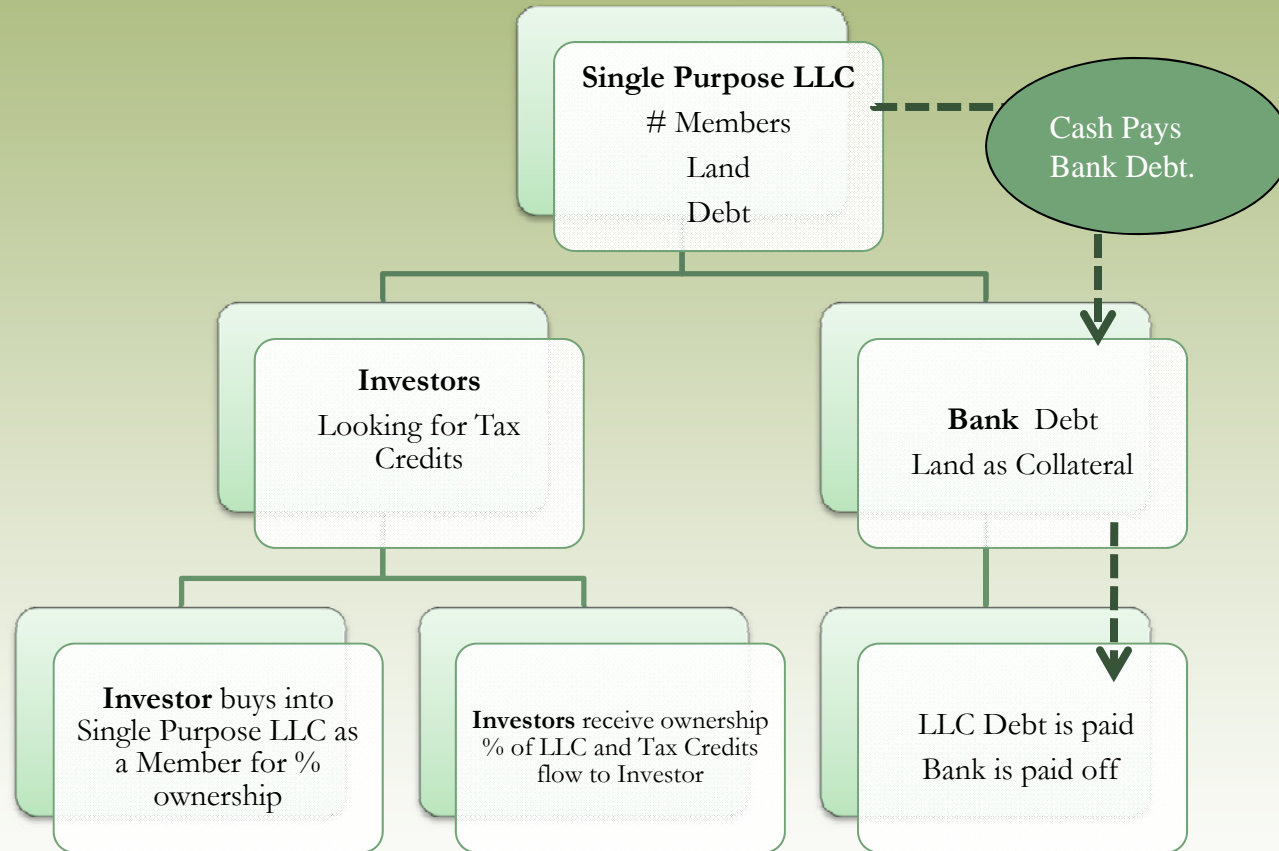
# Conservation Tax Credits and Deduction flow chart. Investor Owned Property



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