

Conservation Easements and the 2010 Roth Conversion: A symbiotic relationship.



By ADAM MILLER, CFP® Adam is a CERTIFIED FINANCIAL PLANNER™ professional. As a trusted fiduciary and fee-only financial planner at Elderado Financial, he works passionately to help families and landowners preserve their wealth, pay less in taxes and give more to the people and organizations they care about. Discover more at ElderadoFinancial.com or call 970-249-9900

Hummingbirds interact perfectly with flowers that are long and tubular. The hummingbirds have special beaks and quite a pair of wings that allow them to get to the nectar in these flowers. Their special design reduces the competition for the birds in this part of the flower market. The flowers are better off as well because hummingbirds tend to stick with similar flora, thus pollination is more efficient between these types of flowers.

It is easy to get caught up watching these birds in action. The symbiotic relationship they share is quite amazing. The unique and specialized design of a group of creatures allows them to compliment each other and the ecosystem benefits.

It may come as a shock, but there is a sort of symbiotic relationship at work between property owners with conservation easements and the IRS. Hard to believe, I know. We understand that the IRS gives tax breaks for those who protect their property from certain development and use. In special circumstances, these landowners can find tax breaks that many others will not reach, similar to the nectar only available to the unique and capable hummingbirds.

The Landowner, Conservation Easements & the 2010 Roth Conversion. At the beginning of 2010, the \$100,000 MAGI (Modified Adjusted Gross Income) limit on Roth IRA conversions was lifted. Individuals that were not able to convert an IRA to a Roth in previous years may now be eligible, and the subject is getting quite a bit of news.

When a standard IRA is converted, it creates a tax liability. For most investors this liability is paid from outside of the IRA. This taxable income is added to their income for the year and the total is reduced by deductions.

For someone who has made an easement donation, or is considering one, the federal income tax deductions from a conservation easement may help to offset income each year. In the same way, the income from a Roth conversion may be offset by deductions from a conservation easement on your property. Instead of writing a huge check to the IRS to pay the tax

liability, you may be able to offset a large portion of that tax by utilizing the deductions from donating a conservation easement

A unique opportunity: Conservation Easement Deduction Carry-forward. Many philanthropic landowners are unable to use the entire deduction in the first year. Due to the fact that conservation easement deductions are often limited to 50% of Adjusted Gross Income (in some cases landowners can apply the deduction up to 100% of AGI), they end up with deductions that they must carry forward. This carry-forward typically expires after 6 years if it is not used. This lost opportunity for charitable landowners costs them taxes.

This situation may create an opportunity to convert a standard IRA to a Roth IRA *with a substantially smaller tax liability* by using the carry-forward deductions. These deductions can offset the tax on a Roth conversion. There are other types of carry-forwards, excess deductions and tax credits that can help to offset the tax liability incurred through a Roth Conversion as well.

Landowners who are charitable within their community may also benefit. Charitable contributions, and planned giving through the use of a Donor Advised Fund, a charitable trust, and other giving options that allow you to take a deduction up front may also benefit. This type of charitable giving, when planned along side of a Roth Conversion, may allow families to make the most of their charitable giving.

For folks that have considered the donation of a conservation easement, this is a wonderful year to begin the planning process.

As tax laws change and taxes rise, opportunities to create these symbiotic relationships will be crucial to preserving your wealth and maximizing your giving. Don't miss your chance to take advantage of this unique opportunity. Consult with the professionals that you trust including the director at your local conservation foundation, your CPA, attorney and financial planner in order to make the most of the Roth Conversion and your conservation easement.