



- specifies procedures related to discovery, case management conferences, the disclosure of information by the parties, trial management orders, and the phasing of issues to be resolved by the court.

The bill allows a taxpayer for a currently backlogged case who does not waive the hearing process before the executive director to request a hearing and final determination by July 1, 2014, unless a further extension is mutually agreed upon. In the case of a person who elects to remain in the hearing process, the executive director is given the authority to consolidate related cases. The executive director is required to issue a final determination on any remaining disputes by July 1, 2016. If a final determination has not been made by the dates specified, the authority of the executive director to dispute the allowance of the credits shall be waived and the credit claimed by the taxpayer is allowed. If a taxpayer fails to appear at a hearing with the executive director or fails to participate in the hearing process, the executive director may issue a final determination without further proceedings. Interest and penalties are waived for taxpayers who continue with the hearing process and pay an amount agreed upon for taxes owed.

The bill requires the executive director of the Department of Revenue, the State Court Administrator, and the Conservation Easement Oversight Commission to report certain findings and actions to committees of the General Assembly. Finally, the bill specifies that members of the Conservation Easement Oversight Commission are immune from liability in accordance with the Colorado Governmental Immunity Act.

## **Background**

**Conservation Easement Income Tax Credits.** The conservation easement income tax credit was originally enacted in 1999, and has been amended several times since. A credit is allowed for individuals and corporations who donate land for a perpetual conservation easement to a government entity or a charitable organization. The owner of an easement continues to maintain the right to prohibit certain acts with respect to the property in order to preserve its value for recreation, education, habitat, open space, or historical importance. If the taxpayer's state income tax liability is less than the amount of the tax credit, the unused portion of the credit may be carried forward for up to 20 years. Alternatively, the tax credit may be transferred to another taxpayer. Currently, a conservation easement tax credit can be claimed for an amount equal to 50 percent of the appraised value of the donation, up to a maximum of \$375,000 per easement. The cap on the tax credit is reached for a donation valued at a fair market value of \$750,000.

**Current Dispute Resolution Status.** If the Executive Director of the Department of Revenue disputes the claim of the credit, a method is currently in place to allow for a hearing on the matter. Under current law, the case may not be appealed to a district court until the hearing has been held and a final determination has been made by the executive director. Additionally, it is difficult to consolidate related claims in the administrative process. There are currently a large number of disputes regarding conservation easement credit claims awaiting hearing and final determination by the executive director.

**Number and Value of Conservation Easements Tax Credits in Question.** Department of Revenue records indicate that approximately 600 conservation easements claimed during income tax years 2000 through 2007 have either been denied or may be denied for issues regarding the validity of the claim or for questionable appraisal values used to support the tax credit claimed. The total amount of income tax liability for these credits is \$222.8 million, including \$154.9 million from conservation easement credit claims; \$18.6 million in penalties assessed to date on denied credit claims; and \$49.3 million in interest on those denied credit claims. This includes both assessments for refunds paid to individuals and subsequently denied, and refunds denied at the time of filing.

**State Revenue**

The impact of the bill on General Fund revenue is indeterminate. The bill could potentially affect as much as \$222.8 million in state revenue, although the actual impact will likely be lower. It is the position of the Department of Revenue that all of the conservation easement tax credits in question either do not meet the criteria to be eligible for the tax credit or are based on inaccurate or overvalued appraisals. The bill allows for an expedited settlement of the disputed claims through the option of either an administrative hearing before the Executive Director of the Department of Revenue or cases will be adjudicated through a hearing directly in a district court. The imposition of additional interest and penalties will be suspended for taxpayers who appeal directly to a district court.

**State Expenditures**

Preliminary estimates of state expenditures required to implement the bill are summarized in Table 1 below. These estimates will be updated as additional information becomes available.

<b>Table 1. Total Estimated General Fund Expenditures Under HB11-1300</b>			
<b>Cost Components</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Personal Services		\$1,977,030	\$1,968,190
FTE		18.7	18.9
Operating and Travel	\$3,354	214,453	194,723
Appraisal - Contract Services		1,035,000	1,035,000
Capital Outlay		184,029	
<b>TOTAL</b>	<b>\$3,354</b>	<b>\$3,410,512</b>	<b>\$3,197,913</b>

**Department of Revenue.** In addition to funds currently appropriated to the Department of Revenue and the Department of Law to resolve disputes concerning conservation easement tax credits, direct General Fund expenditures for the Department of Revenue are \$3,354 for postage in FY 2010-11, \$1,393,631 and 3.6 FTE in FY 2011-12, and \$1,332,885 and 3.6 FTE in FY 2012-13.

In addition, the expenditures identified below for the Department of Law will come from reappropriated funds from the Department of Revenue. Table 2 shows a breakdown of direct General Fund expenditures for the Department of Revenue.

<b>Table 2. Direct Expenditures For the Department of Revenue</b>			
<b>Cost Components</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Personal Services		\$295,842	\$258,044
FTE		3.6	3.6
Operating Expenses	\$3,354	62,789	39,841
Appraisals - Contracted Services		1,035,000	1,035,000
<b>TOTAL</b>	<b>\$3,354</b>	<b>\$1,393,631</b>	<b>1,332,885</b>

**Department of Law.** As shown in Table 3, the Department of Law will require \$1,349,581 and 9.1 FTE in FY 2011-12, and \$1,381,757 and 9.3 FTE in FY 2012-13. These moneys will be reappropriated from the Department of Revenue.

<b>Table3. Expenditures For the Department of Law (Reappropriated Funds from the Department of Revenue)</b>		
<b>Cost Components</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Personal Services	\$1,110,667	\$1,139,625
FTE	9.1	9.3
Operating and Travel Expenses	131,714	134,932
Court Reporter Expenses	107,200	107,200
<b>TOTAL</b>	<b>\$1,349,581</b>	<b>\$1,381,757</b>

**Judicial Branch.** As shown in Table 4, the Judicial Branch will incur costs totaling \$774,500 and 6.0 FTE in FY 2011-12, and \$590,471 and 6.0 FTE in FY 2012-13. These costs will be paid from the General Fund.

<b>Table 4. Expenditures For the Judicial Branch</b>		
<b>Cost Components</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>
Personal Services	\$570,521	\$570,521
FTE	6.0	6.0
Operating	19,950	19,950
Capital Outlay	184,029	
<b>TOTAL</b>	<b>\$774,500</b>	<b>\$590,471</b>

Costs identified for the Judicial Branch are based on new case filings related to a notice of deficiency, disallowance, or rejection from the Department of Revenue regarding a claimed tax credit on conservation easements. Due to the ability to consolidate cases of common easements, it is projected that an additional 72 district civil cases will result from the bill. Since these cases will involve multiple parties in an effort to resolve complex legal issues, resource requirements will be greater than the normal civil case. Given the caseload and the complexity, the bill will require 3 additional judges. The Judicial branch expects to use retired judges to hear the cases. Each retired judge will require 1 support staff to handle the electronic processing of case documents along with other general support staff duties.

**Department of Regulatory Agencies.** The Division of Real Estate in the Department of Regulatory Agencies will experience a one-time cash funds expenditure requirement in FY 2011-12 of \$12,112. On or before August 1, 2011, the Conservation Easement Oversight Commission in the Division of Real Estate must review certain conservation easements that have not previously been reviewed by the commission. These include each conservation easements for which a tax credit has been claimed and for which a notice of deficiency, notice of rejection of claim, or notice of disallowance was issued on or before May 1, 2011, but for which a final determination has not been issued. The commission will issue an initial recommendation on whether each credit should be denied or accepted. Additionally, on or before July 1, 2011, and on a quarterly basis thereafter, the commission must provide a report to the Joint Budget Committee and the Finance Committees of the General Assembly describing the conservation easement tax credits for which the commission provided advice to the Executive Director of the Department of Revenue.

Of the \$12,112 requested, \$8,000 is for contract personal services, \$1,760 is for board meeting expenses, and \$2,352 is for additional legal services. Currently, 41 certified conservation easement holders pay an annual fee of \$3,010 to the conservation Easement Holder Certification Fund. The fee will need to be increased by \$296 to \$3,306 for FY 2011-12 to cover the additional costs of reviewing previous claims for conservation easements.

### **State Appropriations**

For FY 2010-11, the Department of Revenue requires \$3,354 General Fund.

For FY 2011-12, the following appropriations are required:

- \$2,743,212 General Fund and 12.7 FTE to the Department of Revenue, of which \$1,349,581 and 9.1 FTE should be reappropriated to the Department of Law;
- \$774,500 General Fund and 6.0 FTE to the Judicial Branch; and
- \$12,112 from the Conservation Easement Holder Certification Fund to the Department of Regulatory Agencies for the Conservation Easement Oversight Commission, of which \$2,352 should be reappropriated to the Department of Law.

### **Departments Contacted**

Revenue      Judicial      Law      Regulatory Agencies