

Virginia Tax Credits *cont. from pg. 1*

Outdoors Foundation) or a private conservation group to use a portion of the value of that gift as a state tax income credit.

- The tax credit can be claimed for an amount up to 50% of the fair market value of the gift, which must be substantiated by a qualifying appraisal, as defined under federal laws regarding charitable contributions. (However, there is bill in the current state budget, yet to be signed by the Governor, that will reduce the percentage to 40% of the value. The Governor is still contemplating this bill, but if it passes, the new law won't have effect until Jan. 1 2007.)

- The amount of credit which can be claimed has increased to \$100,000 in 2002 and thereafter.

- The credit used in any one year cannot exceed the amount of the tax due, but may be carried forward for five years.

Who can use this?

A local farmer, who owns 100 acres appraised at \$500,000, wanted to keep the land from ever being developed and so placed a conservation easement on the farmland. In exchange for this easement, he qualified for a tax credit of \$250,000, but he couldn't use the tax credit because he had a very small Virginia income tax liability. His tax accountant suggested that he transfer his tax credit and offered to find him a buyer. The farmer was thrilled because he had not only preserved his land *in perpetuity*, but also could make some money on the transaction.

His accountant had another client who had a large Virginia income tax bill and so purchased a portion of this Virginia Conservation Easement tax credit for fifty cents on the dollar, paying \$10,000 for a \$20,000 tax credit. He was thrilled because unlike tax deductions that reduce income, tax credits reduce the amount of tax due.

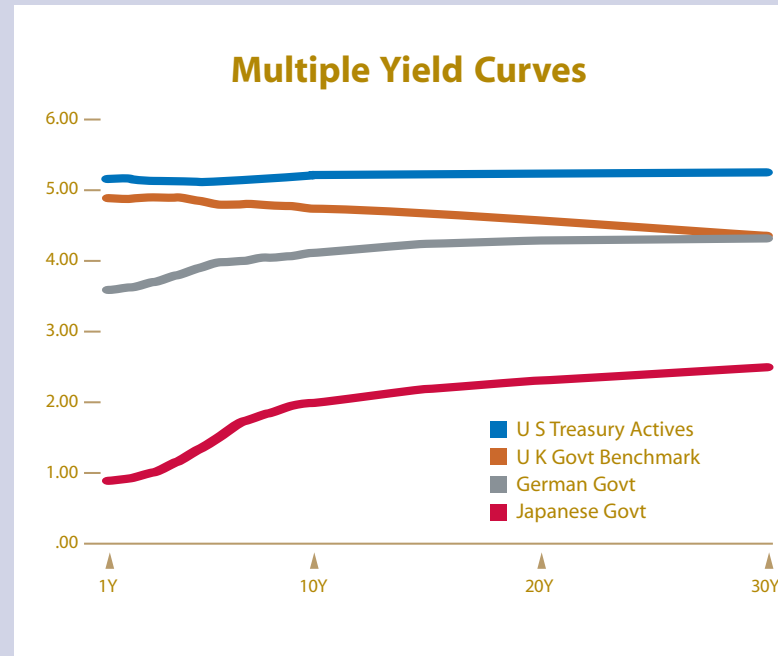
To learn more about Virginia Land Conservation easements, contact The Virginia Outdoors Foundation at www.virginiaoutdoorsfoundation.org or talk to your tax advisor or attorney. ■

Fixed Income Markets - Beth Swartz

The Federal Reserve and monetary policy continue to be the driving force behind the bond market's most recent movements. The Federal Open Market Committee continued raising short term interest rates, making it seventeen times over the past two years. As the Fed has stated, core levels of inflation, primarily core consumer price levels (which exclude food and energy prices) are their primary focus in determining whether further rate increases are needed or not. The U.S. economy has experienced increases in producer prices over the past few quarters, but only in the past several months have those increases been passed on to the consumer. The bond market, anticipating further increases in rates by the Fed, responded with a gradual, upward movement in yields across the curve. The shape of the yield curve continues to be flat, with the 2yr Treasury and the 10yr Treasury yields trading within a few basis points of each other, flirting with inversion at various times. The concern is whether the Fed will go too far in moving policy and slow the economy more than necessary.

When Ben Bernanke began his term as the Chairman of the Federal Reserve Board markets were anticipating more transparent language in terms of their future actions. As with any change in leadership, credibility is a concern. Bernanke's focus is making sure the FOMC develops its own style and credibility remains in tact, post the Greenspan era. Even though markets are looking for more direction, the question remains as to what the Fed actually means by price stability and neutral monetary policy and if they should try to define acceptable levels of inflation with an actual number. However, it would be highly unlikely for the FOMC to quantify their objectives as this would remove the flexibility needed to analyze further data and carry out policy effectively.

The U.S. is not alone in its dedication to keeping inflation under control while maintaining acceptable levels of economic growth. Globally, yields are on the rise as well: Germany, France, Italy and others are experiencing acceleration in inflation levels. In an attempt to get in front of rising inflation levels, the



European Central Bank has raised their refinancing rate and most are anticipating at least two more rate hikes by the end of the year. International yield curves mirror the U.S. yield curve, only at lower levels. Curves are flat, emphasizing how financial markets have become inter-dependent. The amount of excess liquidity on a global basis has been tremendous, and much of that has been invested in the U.S. bond market, which has helped keep longer term rates low. As the ECB and others are forced to raise rates to fight accelerating levels of inflation, some of those funds may be invested elsewhere, giving way for some further increases in rates. ■

Antiques Appraisal Fair at the Virginia Historical Society

In early May, The Trust Company of Virginia hosted its annual Richmond client event. This year we held an "Antiques Appraisal Fair" with our guests bringing an item of interest for appraisal by Ken Farmer, an expert on American arts and crafts who often appears on the Antiques Roadshow. We had an amazing variety of items – first edition books, quilts, hand-carved canes, china figurines, and even some fascinating furniture.

Our venue for this event was wonderfully appropriate – the Virginia Historical Society. The Virginia Historical Society was founded in 1831. Like most of the nation's older historical societies, it has always been a private organization; one that derives virtually all its support from membership and endowment. The Virginia Historical Society has a vast library and collection of manuscripts that include books and bound serials, Confederate imprints, sheet music, broadsides, newspapers, family and personal papers, records of businesses and organizations, diaries, account books, scrapbooks, albums, Bible records, maps, and genealogical materials. The Museum has both permanent and current exhibitions that include paintings, sculpture, prints, furniture, metalwork, ceramics, costumes and other textiles, militaria, political memorabilia, glass plate negatives, daguerreotypes, ambrotypes, tintypes, and original photographic prints. The Banner Lecture Series are so popular they are often sold out - many of our clients had attended a number of their lectures.

For more information about the Virginia Historical Society, check out their website www.vahistorical.org or contact Cynthia Moore, Marketing Director, at (804) 342-9676. ■