

*Pension Protection Act of 2006 (H.R. 4) Explained
August 17, 2006*

President Bush signed the Pension Protection Act of 2006 ("PPA") today. The scope of this 900+ page legislation extends far beyond what the title implies. Landowners, together with tax and conservation professionals, have received a gift in the form of important provisions modifying the Federal tax treatment of conservation easement donations. In addition, the law defines appraisers qualified to value conservation easement donations, decreases thresholds for taxpayer valuation overstatement penalties and provides for separate penalties against appraisers involved in valuation overstatements. These provisions evidence the climate in Washington - while Congress favors using the tax code to further the public policy of protecting private land through conservation easements, it deals harshly with those who abuse the benefits.

Conservation Easement Tax Provisions

Prior Law - A landowner who made a qualifying donation of a conservation easement on property received a Federal charitable contribution deduction. This deduction was limited to 30% of the landowner's "contribution base", which basically is the Adjusted Gross Income ("AGI") on his or her income tax return for the year of the donation. Any excess amount of charitable contribution not used in the year of donation could be carried forward and used (subject to the same 30% of AGI limitation) for 5 additional tax years. After the 6th tax year, any unused amount expired. It is very common that the Federal charitable contribution deduction could not be fully utilized by the conservation easement donor within 6 years.

New Law - Effective only for tax years 2006 and 2007, taxpayers who donate a qualifying conservation easement are entitled to a 50% of AGI limitation vs. the prior 30% limitation. If the landowner is a "qualified farmer or rancher" the changes are even better. Such donors may deduct up to 100% of their AGI - provided that the property remains generally available for agriculture or ranching. In addition, the carryforward period for unused charitable contribution amounts related to such donations is increased from 5 years to 15 years. These changes mean that a much larger proportion of landowners donating conservation easements will receive real value for the charitable contribution deductions generated by their transaction.

Note that after 2007, the law will revert back to previous provisions, unless Congress acts to extend the new benefits to subsequent years. Thus, time is of the essence to reap the benefits of these changes. However, if a donor qualifies under this provision in 2006 or 2007, they can continue to apply its formulas to the amount of their unused charitable contribution deduction that they carry over into years beyond 2007.

How These Provisions Benefit Landowners - Let's use an example:

Under previous rules, a landowner earning \$50,000 a year who donated a conservation easement valued at \$400,000 could take a \$15,000 charitable contribution deduction for the year of the donation and for an additional 5 years – for a total of \$90,000 in tax deductions. \$310,000 of the charitable contribution deduction expired after year 6.

The new rules allow the same landowner to deduct \$25,000 for the year of the donation and then for an additional 15 years. That's \$400,000 in deductions - fully utilizing the

charitable contribution benefits. If the landowner qualifies as a farmer or rancher, they can claim \$50,000 in charitable contributions per year for 8 years based upon the 100% limitation. This eliminates any Federal income tax for those years.

Who Qualifies as a Farmer or Rancher? - The new law defines a qualified farmer or rancher as someone who receives more than 50% of their total gross income for the year in the form of gross income derived from “the trade or business of farming”. This definition applies to individuals and privately owned C corporations. The law references an estate tax provision to define farming/ranching activities. Specifically, those activities include (among others):

- i.) cultivating the soil or raising or harvesting any agricultural or horticultural commodity - including animals - on a farm or ranch; and
- ii.) the planting, cultivating, caring for, or cutting of trees, or the preparation (other than milling) of trees for market.

Note that for a conservation easement to qualify for the special farmer/rancher treatment, it must contain a restriction requiring the land to remain “available for agricultural production”. This term is not defined by the statute, but its intent seems clear. At a minimum, it seems that an easement deed should indicate that the property remains available for agricultural production.

Example of Qualified Farmer or Rancher - The test is based upon gross income, not net profit. Suppose that a landowner generates \$100,000 in gross income from farm products, with a net profit on Schedule F of \$10,000 after all tax deductions. In addition, landowner and spouse have W-2 wages from outside jobs in their community of \$88,000, and they also have interest income of \$2,000. Because the farm gross income of \$100,000 exceeds 50% of total gross income of \$190,000, the landowners are qualified farmers or ranchers under PPA. The test is not based upon \$10,000 of net farm income relative to \$100,000 of total net taxable income. This is a favorable definition that allows many farmers or ranchers to qualify for greater tax benefits.

Combined Federal and State Tax Benefits for Colorado Landowners - Prior to the enactment of PPA, Colorado landowners often received greater financial benefit from the Colorado Conservation Easement Tax Credit. This credit is transferable to third parties - who typically pay discounted cash value for the credits. Prior Federal charitable contribution deduction benefits were often secondary in the landowner's analysis. Based upon the new rules contained in PPA, however, Federal tax benefits for Colorado landowners - especially farmers or ranchers - may be equivalent to, or even greater than, the state tax benefits. This is a welcome development indeed.

A difficult tax question prior to 2006 regarding the Colorado tax credit was how to report the sales proceeds from transfer of the tax credit to a purchaser. Assuming that these proceeds are taxable to the landowner, the expanded Federal charitable contribution rules mean that landowners can offset 50% (vs. 30%) of this income, or 100% if they meet the farmer/rancher definition. This is excellent news for Colorado landowners! However, gross income from sale of these state tax credits will likely be considered as gross income **not** derived from farming or ranching activities, potentially disqualifying the landowner as a farmer or rancher under the law. Colorado landowners must carefully assess their qualification for farmer/rancher status on a year by year basis.

Because of the two year temporary nature of the conservation easement tax benefits in PPA, easement donations closing in years 2006 and 2007 will yield the greatest combined tax benefits for Colorado landowners. Under current Colorado law, the maximum Conservation Easement Tax Credit amount for 2006 is \$260,000 based upon a two tiered credit formula applicable to donations valued at \$500,000 or more. Beginning in 2007, the maximum Colorado credit amount rises to \$375,000 under a single formula of 50% of the appraised conservation easement value. Thus, 2007 donations valued at \$750,000 or more will result in the maximum state tax credit.

Other Provisions Affecting Conservation Easement Donations

Section 1219 of the new law sets higher standards for appraisers and appraisals of all donated property, and sets higher penalties for abusive appraisals. Penalties may be assessed against both the landowner and the appraiser for overstated valuations. In addition, PPA defines a qualified appraiser, setting minimum standards for education, experience and professional certification of persons who determine the value of conservation easement donations. Congress instituted these changes to help ensure the integrity of the charitable donation process. They apply with respect to tax returns filed after the date of enactment of PPA.

Qualified Appraiser - In order for an appraiser to be qualified to perform the easement valuation, he or she needs either an appraisal designation from a recognized appraiser organization (example state certified appraiser or MAI) or must meet minimum education and experience requirements to be established by the Secretary of Treasury. In addition, the appraiser must regularly perform appraisals and be compensated for them. Additional requirements may also be established by the Secretary of Treasury.

Valuation Penalties - Under prior law, income tax penalties (20% of the tax underpayment) for substantial valuation misstatement applied when the taxpayer's claimed value of a donation was 200% or more of the correct valuation. More severe penalties (40% of the tax underpayment) for gross valuation misstatement applied when the claimed value was 400% or more of the correct valuation. PPA reduces the threshold for these penalties to 150% and 200% of the correct valuation, respectively. The penalty amounts remain the same. Donors need to be aware that conspiring with an appraiser to artificially inflate the value of an easement donation can bring penalties that effectively wipe out the value of any tax benefits received, or worse. Greed is the landowner's worst enemy in this area.

An entirely new set of penalties, applicable specifically to appraisers who render overstated valuations, also have been established. Appraisers can even be disciplined by the IRS for valuation misstatements, without first being assessed a civil penalty.

This discussion is not intended as and may not be relied upon as tax or legal advice for your particular situation. Please consult an experienced attorney or tax advisor for specific application of these new tax rules to your individual circumstances.

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**PRESIDENT SIGNS INTO LAW NEW CONSERVATION TAX INCENTIVES
UNDER
THE 2006 TAX ACT!!!**

By

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August 17, 2006

Today the President signed into law significant new tax incentives for land conservation. The changes apply to all **“qualified conservation contributions”** under Section 170(h) of the tax code. **“Qualified conservation contributions”** include (1) the gift of a remainder interest in land for conservation purposes; (2) a gift of the fee interest in real estate for conservation purposes with a reserved right to extract oil, gas, and subsurface minerals; and (3) the gift of a “qualified real property interest,” including a conservation easement. **This summary will focus on conservation easement gifts.**

Landowners and land trusts have been given wonderful new incentives to protect land. But remember that every conservation easement must meet the requirements of Section 170(h) of the tax code and every deduction must be based on a thorough, honest, realistic, clear appraisal, based on existing market conditions and a supportable analysis of land use possibilities.

Some landowners need to be reminded that they are not entitled to an income tax deduction for agreeing to build fewer houses on their land than they could under local zoning. They are entitled to an income tax deduction for **protecting important conservation values**. Under Section 170(h) of the tax code, every conservation easement must meet one of these “conservation purposes” tests:

1. the preservation of land areas for outdoor recreation by, or the education of, the general public;
2. the protection of a relatively natural habitat of fish, wildlife, or plants, or similar ecosystem;
3. the preservation of open space for the scenic enjoyment of the general public, or pursuant to a clearly delineated governmental policy, which will yield a significant public benefit; and
4. the preservation of an historically important land area or a certified historic structure.

Every conservation easement must clearly identify the purposes of the easement and the resources to be protected. Any reserved rights must be consistent with the protection of the conservation values of the property. And the donee land trust must have

the commitment and the resources to enforce the terms of the restriction. Every donee land trust must adopt and follow LTA's Land Trust Standards and Practices. Every land trust must adhere to the letter and the spirit of the law. And finally, landowners and land trusts (and other donee organizations) need to watch out for promoters and appraisers who are trying to sell bad products, particularly including inflated appraisals. Congress and the IRS have been watching this field intensely for the last three years and the land trust community needs to continue to step up and do the job right.

BACKGROUND

Under the "old" law, an individual could deduct the value of a conservation easement donation generally up to 30% of the donor's "contribution base" for the year, with a five-year carryforward of any unused amount. "Contribution base" is a technical tax term that means **adjusted gross income subject to certain adjustments** (which adjustments are not relevant for most landowners). So for shorthand we simply say **the deduction for individuals could be taken up to 30% of "adjusted gross income," or "AGI."**

Also under the old law, a conservation easement donated by a corporation could be deducted **only up to 10% of the corporation's taxable income for the year** (that is, of course, taxable income before taking the deduction), again with a five-year carryforward. **In particular, this very restrictive limitation on charitable contributions by corporate landowners has effectively "killed" countless potential conservation easement donations across the country.**

Gifts by cash or check by individuals are deductible up to 50% of the donor's AGI. This provision has not been changed by the new incentives.

THE NEW LAW

These new incentives apply to conservation easements donated in 2006 and 2007. (Technically, the law says "contributions made in taxable years beginning after December 31, 2005, and before January 1, 2008"; this could be important for some corporate taxpayers that do not have a December 31 fiscal year.) To repeat, and this is important, **unless these new incentives are extended, they will only apply to easement gifts made in 2006 and 2007!!**

There are three important changes in the new law.

First, the value of a conservation easement donation can be deducted **up to 50% of an individual's AGI for the year of the gift.**

Second, there is a **15-year carryforward** of any unused deduction amount.

Third, there is an additional incentive in the case of a donation of a conservation easement by a “**qualifying farmer or rancher.**” A “qualifying farmer or rancher” **can be an individual or a corporation**. In certain cases, the deduction can be taken **up to 100%** of the donor’s AGI for the year of the gift (that is, 100% of AGI if an individual, or 100% of taxable income in the case of a corporation), again **with a 15-year carryforward**.

At this very early point, there are some things we do not know about the new provisions but there are many things we do know, based on the terms of the statute and the report of the Joint Committee on Taxation. Any “final” word on what the statute means may have to wait until the Internal Revenue Service issues regulations, and that could take years. So here is a further discussion about these provisions, with two caveats.

First, this article is not intended to be tax or legal or financial advice. Landowners should be advised in no uncertain terms to get advice from an experienced professional on what the new incentives mean in general and what they might mean in any specific case.

Second, in that regard, landowners should be advised that there is absolutely **no substitute** for having a qualified tax professional “run the numbers” to determine what the tax consequences will be in their own individual cases. I have provided some very simplified spreadsheets to illustrate the potential income tax savings, but these are illustrative only and cannot be relied on in any individual situation.

THE 50% OF AGI LIMITATION AND THE 15-YEAR CARRYFORWARD

One question that is likely to come up is what happens if an individual makes other charitable contributions, say a cash (or check) contribution to the alma mater, or has made other conservation easement donations in the past, and the individual is carrying forward the deductions from those gifts (such carryforward deductions from gifts in prior years are still subject to the 30% of AGI limitation). **When the conservation contribution can be taken up to 50% of an individual’s AGI, here is how this provision works, according to the report of the Joint Committee on Taxation:**

“...assume an individual with a contribution base of \$100 makes a qualified conservation contribution of property with a fair market value of \$80 and makes other charitable contributions subject to the 50% limitation of \$60. The individual is allowed a deduction of \$50 in the current year for the non-conservation contributions (50% of the \$100 contribution base) and is allowed to carryover the excess \$10 for up to 5 years. No current deduction is allowed for the qualified conservation contribution, but the entire \$80 qualified conservation contribution may be carried forward for up to 15 years.”

What this means is that if a donor has made contributions other than these new conservation contributions during the year, those contributions are taken into account first

against the existing limitations. After those contributions are “used up” to the maximum allowable extent, then the conservation contributions are taken into account.

Here is another example. Say an individual has AGI of \$100, writes a check to the local land trust for \$40, and donates a conservation easement with a value of \$80. First the \$40 contribution is used up, then \$10 of the \$80 easement contribution is used up, for a total of \$50, that is, 50% of the individual’s AGI. There is a carryforward, for up to 15 years, of \$70 of the conservation easement contribution.

This tax savings opportunity may be limited!! Once again, although these incentives might be extended, they now apply only to easement gifts made in 2006 and 2007. A philanthropic donor should understand that even if she has “maxed out” her charitable gifts for this year, and even next year, a conservation easement donation made in this two-year window will carry forward for 15 years!! This opportunity might not be available in the future.

THE 100% RULE FOR QUALIFIED FARMERS AND RANCHERS

Under the new law, there are two requirements for a landowner to be able to take advantage of this additional incentive.

First, the donor, whether an individual or a corporation, must be a “qualified farmer or rancher” (see below).

Second, the property must be used in agriculture or livestock production (or available for such production) and the easement must provide that the property remain available for such production.

If these two conditions are met, **the donor can take the deduction for a conservation easement up to 100% of the landowner’s AGI for the year (if an individual), or up to 100% of taxable income for the year (if a corporation), with a 15-year carryforward.**

A “qualified farmer or rancher” is a defined term: it means a taxpayer whose gross income from the business of farming (as defined under Section 2032A(e)(5) of the tax code) is greater than 50% of the taxpayer’s gross income for the taxable year in which the conservation easement is donated. This definition applies to individuals and to corporations. For purposes of this incentive, farming, ranching, other kinds of agricultural activities, and forestry use will satisfy the requirements of the statute; I use the term “farming” here as shorthand.

As one example, a landowner (individual or corporate) who has \$50,000 of “gross income,” all of which comes from the business of farming, is a “qualified farmer or rancher.” A landowner with \$200,000 of gross income, \$40,000 of which is from

ranching, is not. Again, landowners must check with their own advisors about whether or not they are eligible to take advantage of the 100% incentive.

The second requirement to be eligible for the 100% incentive is that the conservation easement must include a restriction that the property remain available for agricultural purposes.

According to the Joint Committee report, “There is no requirement as to any specific use in agriculture or farming, or necessarily that the property be used for such purposes, merely that the property remain available for such purposes.” (emphasis added) In other words, the conservation easement does not have to require that the property stay forever in agricultural use, but must include such agricultural activity as a reserved right.

Because this particular requirement was added to the statute late in the deliberations, it only applies to conservation easements donated after the date the statute becomes law. In other words, farming easements donated after December 31, 2005, and before August 17, 2006, apparently do not need to include this specific language to be eligible for the 100% deduction (although they almost certainly will include such language if the landowner plans to continue farming activities!!). At this early point, all of the ramifications of this requirement are not clear, but in the vast majority of farming and ranching situations it should be easy to satisfy this requirement with careful drafting in the conservation easement.

Note that apparently if an individual who is a “qualified farmer or rancher” donates a conservation easement that does not include this reserved right for continuing agricultural activities, the easement donation could still be taken up to 50% of AGI with a 15-year carryforward. For corporate donors, the “only” new incentive is the 100% incentive, and apparently both the “qualified farmer and rancher” and the “remain available for agriculture” requirements must be met.

When the conservation contribution can be taken up to 100% of an individual’s AGI, here is how this provision works, again according to the Joint Committee report :

Assume that a donor with a contribution base of \$100 makes a qualified conservation contribution with a value of \$80 and has made other cash or check contributions, subject to the existing 50% limitation, of \$60. In this case, the donor may take \$50 of the non-conservation contributions (that is, up to 50% of AGI), plus \$50 of the conservation contribution. The remaining \$10 of non-conservation contributions is available, subject to the old (and existing) 5-year carryforward rules, and \$30 of the conservation contribution (\$80 minus \$50) is subject to the 15-year carryforward rule.

Or, assume an individual with \$100 of AGI writes a check to the alma mater for \$30, and donates a conservation easement with a value of \$100. The donor first deducts the \$30 contribution, then \$70 of the easement donation (up to a total of 100% of AGI). There is a \$30 carryforward, for up to 15 years, from the conservation easement donation.

Note that in many situations around the country, family farms or ranches have been owned by corporations, and up until the passage of this new law, as noted above, an easement donation by the corporation (or any other charitable contribution by the corporation, for that matter) could only be deducted up to 10% of the corporation's taxable income for the year, with a five-year carryforward of any unused deduction amount. **This is a very important new incentive for landowning corporations that meet the “qualified farmer or rancher” test of 50% of gross income coming from agricultural operations.**

OTHER OBSERVATIONS

With the sole exception of the new rule that to be eligible for the 100% carryforward the property must remain available for agricultural purposes, there are **no changes** to any of the prior (and continuing) rules under Section 170(h) for qualifying easement donations.

Also note that any unused carryforward deduction (in the case of any charitable gift) “expires” with the death of the donor. Married couples that own land and want to take advantage of this extended carryforward should consult with their advisors about structuring their land ownership, and easement donation, to take this issue into consideration.

Remember, once again, we are operating in an era of heightened scrutiny. This is all about understanding the rules and quality work !!

SPREADSHEETS

I have included on the following pages some spreadsheets to illustrate potential income tax savings for individuals based on the new tax incentives (the spreadsheets do not cover corporate donations). These spreadsheets may be of great interest to some people and no interest at all to others. All of the cases assume a married couple, filing jointly in 2006, with two exemptions. Please note these are very limited examples, with very limited variations, and are much simpler than most donor's tax situations will be in fact. But they do give us some useful information to start. Once again, any potential donor should be directed to his or her tax advisor to “run the numbers” for any particular situation.

One of the reasons I wanted to run the spreadsheets is to determine whether the dreaded Alternative Minimum Tax (“AMT”) might somehow reduce the tax savings from these new incentives. (Very simply, you must calculate your regular tax, then you must calculate your alternative minimum tax, and pay whichever is higher.) This is a generalization, and it is always risky to generalize about the AMT or any tax calculations,

but as you can see from the spreadsheets the AMT (see the entries under “Tentative Minimum Tax” when they appear at all) is almost never an issue in the limited scenarios covered by the spreadsheets.

The spreadsheets do not address state income tax issues. Also, new software is not yet available for the new conservation donation tax incentives, so I had to improvise a bit here and there to adapt. I believe these calculations are correct, however.

The spreadsheets begin on the next page.

Here is \$50,000 of income, no deductions:

Adjusted Gross Income	50,000
Itemized Deductions	0
Taxable Income	33,100
Net Federal Tax	4,210

Here is \$50,000 of income and a \$500,000 easement donation taken up to 30% of AGI:

Adjusted Gross Income	50,000
Itemized Deductions	15,000
Taxable Income	28,400
Net Federal Tax	3,505

Here is \$50,000 of income, with a \$500,000 easement donation taken up to 50% of AGI:

Adjusted Gross Income	50,000
Itemized Deductions	25,000
Taxable Income	18,400
Net Federal Tax	2,005

Here is \$50,000 of income, with a \$500,000 deduction taken up to 100% of AGI:

Adjusted Gross Income	50,000
Itemized Deductions	50,000
Taxable Income	-6,600
Net Federal Tax	0

Here is \$100,000 of income, no deductions:

Adjusted Gross Income	100,000
Itemized Deductions	0
Taxable Income	83,100
AMTI Net of Exemption	37,450
Schedule or Table Tax	13,890
Tentative Minimum Tax	9,737
Net Federal Tax	13,890

Here is \$100,000 of income, with a \$500,000 easement deduction taken up to 30% of AGI

Adjusted Gross Income	100,000
Itemized Deductions	30,000
Taxable Income	63,400
AMTI Net of Exemption	7,450
Schedule or Table Tax	8,965
Tentative Minimum Tax	1,937
Net Federal Tax	8,965

Here is \$100,000 of income, with a \$500,000 easement deduction taken up to 50% of AGI:

Adjusted Gross Income	100,000
Itemized Deductions	50,000
Taxable Income	43,400
Net Federal Tax	5,755

Here is \$100,000 of income, with a \$500,000 deduction taken up to 100% of AGI:

Adjusted Gross Income	100,000
Itemized Deductions	100,000
Taxable Income	-6,600
Net Federal Tax	0

Here is \$200,000 of income, no deductions:

Adjusted Gross Income	200,000
Itemized Deductions	0
Taxable Income	149,950
AMTI Net of Exemption	167,500
Schedule or Table Tax	40,672
Tentative Minimum Tax	38,987
Net Federal Tax	40,672

Here is \$200,000 of income, with a \$500,000 easement donation taken up to 30% of AGI:

Adjusted Gross Income	200,000
Itemized Deductions	59,010
Taxable Income	134,390
AMTI Net of Exemption	77,450
Schedule or Table Tax	27,033
Tentative Minimum Tax	20,137
Net Federal Tax	27,033

Here is \$200,000 of income, with a \$500,000 easement deduction taken up to 50% of AGI:

Adjusted Gross Income	200,000
Itemized Deductions	99,010
Taxable Income	94,390
AMTI Net of Exemption	37,450
Schedule or Table Tax	16,713
Tentative Minimum Tax	9,737
Net Federal Tax	16,713

Here is \$200,000 of income, with a \$500,000 deduction taken up to 100% of AGI:

Adjusted Gross Income	200,000
Itemized Deductions	199,010
Taxable Income	-5,610
Net Federal Tax	0

Here is \$500,000 of income, no deductions:

Adjusted Gross Income	500,000
Itemized Deductions	0
Taxable Income	487,500
AMTI Net of Exemption	500,000
Schedule or Table Tax	143,876
Tentative Minimum Tax	136,500
Net Federal Tax	143,876

Here is \$500,000 of income, with a \$500,000 easement deduction taken up to 30% of AGI:

Adjusted Gross Income	500,000
Itemized Deductions	143,010
Taxable Income	354,790
AMTI Net of Exemption	337,450
Schedule or Table Tax	97,427
Tentative Minimum Tax	90,986
Net Federal Tax	97,427

Here is \$500,000 of income, with a \$500,000 easement deduction taken up to 50% of AGI:

Adjusted Gross Income	500,000
Itemized Deductions	243,010
Taxable Income	254,790
AMTI Net of Exemption	212,450
Schedule or Table Tax	64,062
Tentative Minimum Tax	55,986
Net Federal Tax	64,062

Here is \$500,000 of income, with a \$500,000 deduction taken up to 100% of AGI:

Adjusted Gross Income	500,000
Itemized Deductions	493,010
Taxable Income	4,790
AMTI Net of Exemption	0
Net Federal Tax	479

Here is \$1,000,000 of income, no deductions:

Adjusted Gross Income	1,000,000
Itemized Deductions	0
Taxable Income	987,500
AMTI Net of Exemption	1,000,000
Schedule or Table Tax	318,876
Tentative Minimum Tax	276,500
Net Federal Tax	318,876

Here is \$1,000,000 of income, with a \$500,000 easement donation taken up to 30% of AGI:

Adjusted Gross Income	1,000,000
Itemized Deductions	283,010
Taxable Income	714,790
AMTI Net of Exemption	700,000
Schedule or Table Tax	223,427
Tentative Minimum Tax	192,500
Net Federal Tax	223,427

Here is \$1,000,000 of income, with a \$500,000 easement donation taken up to 50% of AGI:

Adjusted Gross Income	1,000,000
Itemized Deductions	483,010
Taxable Income	514,790
AMTI Net of Exemption	500,000
Schedule or Table Tax	153,427
Tentative Minimum Tax	136,500
Net Federal Tax	153,427

Here is \$1,000,000 of income, with a \$1,000,000 deduction taken up to 100% of AGI:

Adjusted Gross Income	1,000,000
Itemized Deductions	983,010
Taxable Income	14,790
AMTI Net of Exemption	0
Schedule or Table Tax	1,479
Net Federal Tax	1,479