

## Charitable Contributions of Commodities

*Making a charitable contribution of commodities is a great way to support organic and sustainable research and education needs.*

Agricultural producers have the opportunity to make contributions of raised commodities, such as grain, livestock, etc., directly to qualified nonprofit organizations. The fair market value of the gifted commodity is excluded from taxable income of the donor, resulting in the potential for significant federal, state, and self-employment tax savings.

Let's review a couple of scenarios illustrating donations of commodities and cash to better understand the advantages.

The following example illustrates the potential tax savings of a charitable gift of a commodity directly to a qualified nonprofit organization such as the Organic Advocacy and Education Council (OAEC).

### **Scenario 1 ~ Charitable Gift of a commodity worth \$10,000 directly to a qualified nonprofit organization**

Let's assume Farmer Brown makes a charitable gift of a commodity worth \$10,000 directly to the OAEC.

- The \$10,000 value of the commodity is excluded from taxable income on Schedule F, resulting in \$0 owed on federal, state, and self-employment tax owed on the donation value.
- The tax benefit comes from deducting the *production expenses* and from *not* reporting the sale on Schedule F.
- No charitable deduction is allowed, as the tax basis of the commodity contributed is \$0.

### **Scenario 2 ~ Sale of commodity for \$10,000 and a subsequent gift of \$10,000 to a qualified nonprofit organization**

For the purposes of this example, let's assume Farmer Brown sells his commodity and makes a \$10,000 cash gift to the OAEC from the proceeds of that sale.

- The \$10,000 income from the sale of the commodity would be included as taxable income on Schedule F, and subject to federal and state income, and self-employment taxes.
- Assuming a 25% federal tax rate and 5% state tax rate, total income tax due as a result of this sale would be \$3,000.
- Assuming that the Farmer Brown's self-employment income is less than the \$113,700 social security wage base, self-employment taxes would be \$1,530
- Assuming that Farmer Brown is married and has no other itemized deductions, the \$10,000 charitable contribution would result in \$0 tax benefit, as the \$12,200 standard deduction for a married couple filing a joint return would exceed the itemized deduction of \$10,000

**Total tax due as a result of the \$10,000 commodity sale = \$4,530**

*(Note that the tax savings of Scenario 2 may vary, depending upon the marital status of the donor, level of self-employment income of the donor and presence of any additional itemized deductions of the donor.)*

In comparing the two scenarios of charitable giving, Scenario 1, making a charitable gift of a commodity, **results in a \$4,530 tax savings to the donor, while still providing the nonprofit organization with a \$10,000 benefit**, while Scenario 2, making a cash donation, provides no tax savings.

In order for an agricultural producer to benefit from donating commodities, and provide for the maximum tax benefit to him/her, it is very important to be aware of the following guidelines.

**1. The Donor must keep his books on a cash basis, and be actively engaged in farming activity.**

- Commodities gifted by a farmer who keeps his books on an accrual basis will not qualify, as the farmer will have a basis in the commodity.
- Commodities gifted by a crop-share landlord do not qualify do to the assignment of income principal.

**2. The Donor must be sure that the commodities gifted are not:**

- Collateral for a CCC loan.

- Under a loan deficiency payment program.

### **3. The Donor must ensure that the commodity, not cash, is being given to the charitable organization.**

- Clear title to the commodity must pass to the nonprofit organization.
- Present a letter to the nonprofit telling them that you are making a contribution of a commodity.
  - The letter should describe the commodity and the quantity being contributed.
  - The letter should ask the nonprofit where and when they want commodity delivered. By IRS rules, the nonprofit must have dominion and control of the commodity.
  - Keep a copy of the letter.
- When the Donor delivers the commodity, for example, delivering grain to the elevator/grain processor, the Donor must use the nonprofit organizations name on the assembly sheet.
- The assembly sheet, warehouse receipt, etc., should be delivered to the nonprofit organization.
- Be sure to get a receipt from the nonprofit for the weight and/or quantity of the donation.

### **4. The nonprofit organization must direct the sale of the commodity,** as the Donor is no longer the owner. For example, the nonprofit must call the elevator/grain processor and request the grain be sold.

**5. If the commodity is delivered by a producer to a cooperative,** the reporting of the commodity sale will be handled differently. Under normal circumstances, the sale of a commodity by the producer will generate unit retains as reported on the 1099-PATR. Using the example of a donation of grain, because the commodity is not being sold in the producer's name, the bushels sold and dollars collected will not be included on the producer's 1099-PATR. However, it is important for the producer to keep a copy of the assembly sheet with the commodity donated to the nonprofit to be able to prove their yields for FSA and crop insurance purposes. Also, it is important to review your 1099-PATR at the end of the year in which you made the donation to be sure the commodity sale was not included in your taxable total.

The Organic Advisory and Education Council is now in the process of implementing its plan of action to promote much needed organic research, secure adequate funding for that research, and disseminate the results to producers for their own benefit. Your contribution of a commodity to OAEC will support highly needed research which will further the goals of organic agriculture, healthy, safe, sustainable, and affordable food, for many generations to come. And by supporting the efforts of the OAEC through a donation of a commodity, you can benefit from a sizeable tax savings to you.

Consider contributing toward a solution by gifting a quantity of your commodity to the Organic Advocacy and Education Council.