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Commodity Donations and Tax Benefits for Agricultural Producers

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INTRODUCTION

When charitable contributions are made, the main intent of those donations is to assist those in need. However, charitable donations also can provide tax benefits for those making the donation by potentially reducing taxable income. When making charitable donations, it is important to understand, as an agricultural producer, what can and cannot be done when seeking tax deductions. This publication is designed to answer questions concerning tax benefits from commodity donations such as grain or livestock.

WHO CAN MAKE A DONATION?

Before December 2015, only C Corporations were able to make charitable contributions with tax reducing benefits. Since then, the U.S. Congress passed legislation allowing sole proprietorships, partnerships, corporations and limited liability companies to claim potential deductions. For a donation to qualify for tax benefits, the farm or business must generate taxable income and retain records of the donation from the charitable organization. To confirm that you qualify for this tax reducing benefit, reach out to a trusted tax advisor or accountant who understands common agricultural practices.

HOW DO I MAKE A DONATION?

One option for producers wanting to make charitable donations is after receiving income from the sale of a commodity to then make a monetary gift to their charity of choice. For example, a farmer can sell livestock at the local stockyard, receive payment for the animal and then gift the payment to the charity. However, this form of donation requires the farmer to report this money as ordinary income, which is subject to self-employment tax. Farmers not itemizing deductions (i.e. taking the flat standard deduction amount based on filing status) will not recognize any tax advantage from this method of giving. Those who do itemize deductions , can deduct the value of the charitable gift from taxable income. Therefore, the gift will lessen the amount of income subject to income tax, but the gift will not reduce the amount of income subject to self-employment tax.

Another option for a producer is to directly donate the raised commodity. Rather than donating the proceeds from the sale of the commodity, donation of the physical commodity means there is no received income from the commodity subject to income tax or self-employment tax. Guidance from the Internal Revenue Service states a farmer can make a charitable donation of a raised commodity and still deduct the associated expenses with raising the commodity from their annual expenses (Treas. Reg. Reg. § 1.170A-1(c)(4). A commodity donation, although more documentation is required, can provide tax savings for all producers regardless if the producer itemizes deductions versus a simple cash donation. One important aspect to note is that producers who do itemize cannot receive a charitable contribution deduction for a raised commodity since the commodity has a zero basis.

ARE THERE ANY REQUIREMENTS?

Although donating a commodity may seem easy on the front end, there are specific requirements for the donation to qualify as a tax deduction. The following requirements must be met:

- The producer must use the cash-method, rather than accrual, of accounting.
- Producers wishing to make a charitable contribution in the form of a physical commodity must transfer ownership of the commodity to the charity before the commodity is sold. Under I.R.C. § 170(f)(8), a written acknowledgement is not required. However, producers should consider asking for documentation from the charity acknowledging receipt of the gift and stating that no value or services were exchanged for the commodity gift. Although not required, this documentation can be important to producers who are audited, and it can prove the ownership of the commodity was transferred before the sale and the transfer was a gift.

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[1] Itemized deducations can be considered if the total amoung of your allowable itemized deducations is greater than the standard deducation or you cannot use the standard deduction.

[2] Form 8283 must be filed if making charitable contribution deductions.

IMPORTANT CONSIDERATIONS

When making a charitable contribution in the form of a raised commodity, donating grain is rather straightforward. Donating livestock, however, is more complicated and requires more attention to documentation.

- To donate livestock, ownership must be clearly transferred before any sale occurs. Delivering livestock to the stockyard and directing the buyer to pay the charity does not provide any tax deduction as there is not a clear transfer of ownership to the charity.
- Another popular form of donation is delivering livestock to a processing facility and the meat is delivered to a charity. It is essential to have a clear, written agreement between producer, processor and the non-profit for this form of donation. Similar to delivering livestock to the stockyard, for a tax-deduction, the producer must show clear evidence that the ownership of the livestock is transferred to the non-profit before any transaction occurs. Discussion should occur between the processor and the non-profit pertaining to processing fees. Either the processing services will be donated by the facility or the non-profit will pay for the processing fees.

CONCLUSION

Over the years, agricultural producers have strived to make charitable donations to various causes. Now, those same producers have opportunities to continue making annual donations to their charities of choice as well as receive tax benefits for those same donations. By keeping accurate records of donations, producers may have the opportunity to reduce taxable income. This publication is designed to answer various questions on the topic of tax benefits from charitable donations. However, it is still important to confer with a tax advisor regarding opportunities pertaining to an individual's situation.

REFERENCES

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USDA-FSIS. 2020. "FSIS Guideline to Assist with the Donation of Eligible Meat & Poultry Products to Non-Profit Organizations." United States Department of Agriculture: Food Safety and Inspection Service. Retrieved February 25, 2023. Link: **https://www.fsis.usda.gov/guidelines/2020-0016**

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[3] For a donation of meat or poultry products to a non-profit organization, the products must be federally-inspected and passed products. Economically adulterated products can also be donated, but it is recommended to find additional guidance on this type of production donation at the United States Department of Agriculture: Food Safety and Inspection Service.

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