



CHARITABLE CONTRIBUTIONS OF FARM RAISED INVENTORY

Parman R. Green

UO&E Farm Business Management Specialist

Contributions of raised commodities to your favorite charitable organization could provide you additional tax advantages. To a non-profit charitable organization, there is not tax difference in the receipt of \$x,xxx of cash or commodities. However, if you are a cash basis farmer, there can be a substantial difference in the tax consequences.

A tax advantage results from the fact there is no income recognition by the farmer-donor upon the gift transfer of inventory. The IRS has ruled the gift of raised farm commodities by a cash basis farmer represents a transfer of an asset, rather than the "assignment of income".

However, the donor must: 1) reduce the basis of the inventory (which for a cash basis taxpayer is zero) or, 2) reduce any undeducted expenses related to the commodity which has been gifted. Tax practitioners are interpreting this language to mean any related costs deducted in a tax year prior to the year of the gift will not be adjusted.

For farmers who use the standard deduction instead of itemizing, the charitable contribution of inventory removes this potential income from taxation. Further, whether you use the standard deduction or itemize, if your farm income is less than the self-employment earnings cap, the charitable gift of inventory will also reduce your self-employment tax liability. Thus, farmers gifting inventory to charities reduce their liability for federal and state income taxes and possibly on self-employment taxes.

The following are key factors for effective tax savings from charitable gifts of inventory: 1) you must be a cash basis taxpayer; 2) you must have materially participated in the production of the commodity; 3) gift prior year production to prevent reduction of undeducted production expenses, and 4) title and control of the commodity must be transferred to the charity.

The direct transfer of raised inventory to a charity can provide for a substantial tax savings. However, the "l's" must be dotted and the "t's" crossed! Therefore, the review of this strategy with a tax consultant is advised.