Charitable Contributions of Commodities

Many farmers regularly and generously give to their churches or other charitable organizations. This section reviews the rules for gifting a raised commodity directly to the charity, instead of selling the grain or livestock and then donating the proceeds. This strategy can allow some farmers to recognize both income tax and self-employment tax savings, all the while benefiting a charitable cause. During years of high commodity prices, gifting commodities directly can be an especially helpful strategy.

Benefit of Gifting Directly

If a farmer sells grain or livestock and then gifts the proceeds to charity, the income recognized from the sale is ordinary income to the farmer, subject to self-employment tax. Farmers who do not itemize deductions will recognize no tax advantage from the cash gift. In other words, a farmer with $10,000 of sales proceeds may have less than $6,000 after taxes to donate to the charity. Those who do itemize deductions (only available if deductions for those who are married filing jointly exceed $29,200 in 2024), can deduct the value of the charitable gift from taxable income. This means the gift will reduce the amount of income subject to income tax. The gift will not, however, reduce the amount of income subject to self-employment tax.

Cash-basis farmers who donate a raised commodity will save on both fronts. Donating the commodity, instead of the sales proceeds, means that the farmer will not recognize any income for the commodity itself. [Rev.Rule 55-138]. This means the producer will pay no income tax or self-employment tax on the value of the charitable gift. This is particularly beneficial to farmers who do not itemize deductions. Even those who do, however, can benefit from the reduced self-employment tax liability. Farmers who gift a raised commodity are not eligible for a charitable contribution deduction. The charitable contribution deduction is limited to the farmer's basis in the commodity, which, for a raised commodity, is zero. [I.R.C. §170(e)(1)(A)].

Example 5.1

Milo is married and in the 24% marginal federal income tax bracket. He has $80,000 of net income from his farm business on Schedule F (Form 1040), and he does not itemize deductions.
If Milo sells 2,500 bushels of harvested corn for $9,600 and gives the proceeds to his church, he must report the $9,600 on his Schedule F (Form 1040). Because he does not itemize deductions, he cannot claim the $9,600 as a charitable contribution deduction. Donating the 2,500 bushels of corn (rather than selling and donating the proceeds) reduces Milo's self-employment tax and his federal income tax. Although he has no charitable contribution deduction, his donation reduces his Schedule F (Form 1040) income by $9,600. Consequently, the donation reduces his potential taxes by $3,497, as shown in Figure 5.1.

FIGURE 5.1: TAX SAVINGS FROM DONATING COMMODITY
Net SE tax savings: ($9,600 × 0.9235 × 0.153) = $1,356
Deduction for 50% of SE tax: $ 678
Federal income tax savings: [($9,600 – $678) x 0.24] = $2,141
Total tax savings: $3,497

Expenses

IRS guidance provides that a farmer who makes a charitable donation of a raised commodity can deduct the expenses associated with raising that commodity. [Treas. Reg. § 1.170A-1(c)(4)]. This is true even if the donation is made in the same year the expenses were incurred.

Contrast with Non-Charitable Gifts

A different rule applies to non-charitable gifts of commodities. With these gifts, associated expenses are not deductible if the gift is made in the year the expenses were incurred. If the farmer waits to gift the commodity until the year after the expenses are incurred, however, the expenses are not added back to income.

Eligibility Requirements

To recognize tax savings from the gifting of a commodity to a charity, the following must be true:

④ The farmer must use the cash-method of accounting. Courts have ruled that crops raised by a farmer are income-producing property rather than income itself. The gift of such property does not constitute an event in which income is realized. Farmers who use the accrual method, however, must recognize income from their commodity when it is earned.

④ The commodity must be unsold inventory in the hands of a farmer [Rev. Rul. 55-138]. Crop share landlords are not eligible for tax savings. o

Gifting Procedures

Farmers and entities donating commodities to charity must be careful to properly transfer the commodity to the charity before any sale. If the correct process is not followed, the IRS will treat the transaction as a sale followed by a donation, removing any tax benefit.

④ Title to the commodity must be transferred to the charity before the commodity is sold.

④ If the commodity is grain delivered to the warehouse or elevator, the farmer delivers the grain with a storage or warehouse receipt made out to the charity.

④ The farmer delivers the receipt to the charity, with a letter (deed of gift) stating that that the grain belongs to the charity and that the charity is responsible to store or sell the grain as it chooses.

④ Although farmers can also gift unsold livestock to a charity, it is more difficult to prove that title is transferred with livestock transactions. If given a choice, farmers should choose grain, rather than livestock, because of the ease with which title to the grain may be transferred.

o If gifting livestock, ownership of the live animal must be clearly transferred to the charity before any sale. Delivering livestock to market and directing the buyer to pay the charity would be a sale and a donation, eliminating any tax benefit.

④ Farmers should certify their production to the FSA before donating the commodity to ensure proper credit for the production.

Documentation

Because the taxpayer is not taking a deduction for the donation of raised commodities, a contemporaneous written acknowledgement is not required under I.R.C. § 170(f)(8). Nor must the farmer file an IRS Form 8283, which is only required to support a charitable contribution deduction.

Although this formal documentation is not required for gifts of commodities, farmers should be careful to document the transfer. Toward this end, they should solicit a receipt from the charity acknowledging the gift and stating that nothing of value was received in exchange for the gift. Upon audit, the farmer must be able to prove that title was transferred to the charity before the commodity was sold and that the transfer was a gift.