



Farm Commodity Gifts

If you are actively engaged in farming operations, gifting farm commodities (corn, soybeans, fruit, etc.) may present an excellent opportunity for you to meet your giving goals, while at the same time providing favorable tax benefits.

What Are the Benefits of Giving Farm Commodities vs. Cash?

Federal tax law makes gifts of commodities more advantageous than cash for many farm operators and materially-participating landlords.

- Many farmers do not have substantial itemized deductions and therefore use the standard tax deduction.
- If a farmer takes the standard deduction, no tax benefit is gained by charitable contributions of cash.
- Cash basis, active farmers may avoid federal and state income and self-employment taxes (if their gross income is less than \$106,800) on their gift of commodities.
- A business deduction may be claimed for production costs, regardless of whether those costs occurred in the current year or prior years.

Here is an Example of the Tax Savings Related to a Commodity Gift.

Bud Peterson, a grain farmer, donated 1,000 bushels of corn to his favorite charity. Bud's cost of production was \$1,800, and the proceeds generated by the sale of the corn by his favorite charity were \$5,000. Bud uses the cash method of accounting.

Bud is entitled to deduct the \$1,800 of production expenses on Schedule F. In addition, he will not be required to report the gift of corn as income (nor will he be entitled to a charitable deduction). Assume Bud is in a 25% income tax bracket (ignore state income taxes) and does not have enough itemized deductions to exceed his standard deduction. The following are the tax savings resulting from gifting the corn:

\$1,250	Federal income tax (\$5,000 x 25%)
<u>\$ 665</u>	Self-employment tax (\$5,000 x 13.3%)
\$1,915	Tax Savings

By gifting the corn rather than selling it outright and making a cash gift, Bud saves \$1,915 in taxes. In addition, he can deduct the \$1,800 of production expenses. If Bud does itemize deductions, the tax savings are limited to the self-employment tax.

[over]

How Do You Make a Farm Commodity Gift to Your Favorite Charity?

Actually it is quite simple to make this type of gift; here are the steps you should follow:

- Notify the charity of your intention of making a commodity gift by completing a Farm Commodity Gift Notice and fax or mail it to the charity.
- Deliver the farm commodity to the elevator, or notify elevator employees if the commodity is in storage at the elevator.
- Notify the elevator staff of the gift and ask them to issue the warehouse/storage receipt in the name of the charity of your choice.
- The charity will then direct the sale of the commodity to the elevator and send you a letter acknowledging receipt of your gift.

Can You Fund a Charitable Gift Annuity or a Charitable Trust with a Farm Commodity Gift?

Yes, in certain circumstances, commodities are also excellent assets for donors to fund either a Charitable Gift Annuity or a Charitable Remainder Trust. Barnabas Foundation provides assistance to its member organizations in handling these types of gifts. Please contact Barnabas Foundation prior to making this type of gift, as they involve more complex calculations and income tax reporting are involved.

For more information, please contact Barnabas Foundation toll-free at (888) 448-3040.