Guidelines for Charitable Gifts of Grain

Taxpayers should always consult with their tax preparer to determine the tax implication prior to making a gift. The following is not to be construed as specific tax advice. These are guidelines to assist in the mechanics of making charitable gifts of agricultural commodities.

- The farmer can exclude the sale of the cash crop from income and deduct the cost of growing the crop. There is no deduction for a charitable contribution.
- Available for cash basis farmers.
- Crop share landlords cannot gift grain. Shares of crop are rental income that must be reported as income on their tax return.
- The farmer must give up “dominion and control” of the commodity.
- The farmer cannot sell the grain and order the proceeds to be sent to Aging Well, Inc.. This would result in the transaction being considered a cash sale and cash donation since the farmer has not given up control of the property.
- The farmer should not provide guidance to Aging Well, Inc. regarding the sale of the commodity.
- Aging Well, Inc. assumes the risk after the transfer. These risks include storage, transportation and marketing costs as well as price risk.
- The transaction must be well documented to show Aging Well, Inc. as the owner (i.e. commodity is delivered and a warehouse receipt executed to Aging Well, Inc., or notarized letter of transfer for crops stored on the farm.)
- Grain can be donated in the year of production or a subsequent year.
- Grain can be gifted at any time during the tax year.
- The gift should be from unsold crop inventory. No sale commitment should be made prior to the gift.
- Aging Well, Inc. should retain the warehouse receipt and the original invoice showing Aging Well, Inc. as the seller.

***Accounts for Gifts of Grain to Aging Well, Inc. have been established at Geary Grain and Agri Trail Coop. Call Duane Blythe at Central National Bank to inquire about other location options. ***

Example Case Study of Tax Savings from Gift of Grain

Pat, a cash-basis grain farmer who takes the standard deduction every year, donates 1,000 bushels of grain to his favorite charity, Aging Well, Inc.. His cost of production is $2,000 and the proceeds from the sales of the grain by Aging Well, Inc. is $5,000.

Pat is entitled to deduct his $2,000 of production expenses on Schedule F. In addition, he will not be required to report the proceeds from the sale of the grain as income. Assuming that Pat is in the 25% federal and 8.98% Kansas tax bracket, the following are the tax savings that result when Pat reduces her taxable income by making a gift of grain to Aging Well, Inc.

$1,250 Federal Income Tax savings ($5,000 X 25%)

$449 State Income Tax savings ($5,000 X 8.98%)

$765 Self-employment Tax savings ($5,000 X 15.3%)

= $2,464 Combined tax savings

By donating grain rather than selling it outright and making a cash gift, Pat saves $2,464 in taxes. In addition, he can still deduct the $2,000 of production expenses he incurred to grow the grain.

(Note: if Pat itemizes his deductions rather than claiming the standard deduction, her additional tax savings through making a gift of grain rather than cash would be limited to the savings on self-employment tax.)