



Donating Crops Can Mean Substantial 2014 Tax Savings for Farmers

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Farmers seeing a strong 2014 year are beginning to seek tax strategies to minimize 2014 taxes. One strategy to consider is making a charitable donation in the form of crops. There are substantial tax advantages in making a gift of crops that do not exist with the traditional type of charitable donation made with using a check or cash.

For example, Larry and Francine operate their family farm. During 2014, they gave a total of \$5,000 to their local church. This amount was given to the church in the form of weekly checks. In order to obtain any tax benefit from the \$5,000 donation, they must itemize their deductions for the year instead of claiming the standard deduction. For 2014, the standard deduction is \$12,400 for a couple filing jointly. Larry and Francine will need a substantial amount of other itemized deductions in order to make it worthwhile to itemize their deductions rather than claim the standard deduction. Generally, if they don't itemize, there will not be any tax benefit from the usual cash-or-check \$5,000 charitable donation. However, if Larry and Francine instead give the church a gift of crops with a value of \$5,000, the following advantages may exist:

- The value of the donated crops is not included on Schedule F
- The expenses associated with the production of the donated crops are deductible on Schedule F
- There are no federal or state income taxes paid on the value of the donated crops
- There is no self-employment tax paid on the value of the donated crops
- Yield records are not affected by the donation

With a crop donation, tax savings from the donated crops will still exist whether Larry and Francine choose to itemize deductions for the year or claim the standard deduction. If it isn't worth itemizing deductions in 2014, Larry and Francine can claim the standard deduction of \$12,400 and still obtain all of the tax advantages of the donated crops. In addition, with self-employment taxes now at 15.3%, the overall tax savings from donated crops can be substantially higher than the tax savings that results from the ordinary cash-or-check type of donation, which generally does not provide a self-employment tax savings.

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An important aspect of donating crops under the Tax Code is for the farmer to ensure that full “dominion and control” over the crops donated is relinquished. Full relinquishment of dominion and control is an essential element of a gift for tax purposes. In order to satisfy this tax requirement, after the donation of the crops the farmer cannot retain any legal right to recall the crops or even direct what happens with them. Once crops are delivered to the warehouse, a warehouse receipt may be requested in the name of the charity, showing the charity as owner for the number of bushels that the farmer wishes to donate. The farmer may then notify the charity of the donation and the charity should be given full control over the donated crops from that point, directing any subsequent sale or other control over the donated crops. Care must generally be taken by the farmer not to instruct or direct the charity on the subsequent sale or other aspects regarding the donated crops, since this might provide evidence that the farmer’s dominion and control over the crops was not, in fact, fully relinquished. It is important to **properly document** the farmer’s full relinquishment of dominion and control over the donated crops in order for the farmer to be able to establish that the crop donation meets the requirements of a gift under the Tax Code. Immediately after the donation, the charity should take responsibility for the storage costs and sale expenses, and should assume any risk of loss in connection with the donated crops. Many charitable organizations have experience with crop donations and are quite familiar with how administer such donation in the charity’s best interests after it has been made by the farmer.

Generally, a landlord that only receives cash rents or who crop shares as rent cannot use this donated crop strategy.

Farmers facing a higher-income 2014 in need of tax-saving strategies should consult their tax advisor on the use of the donated crop strategy because of the significant tax savings that can result. Proper advice is essential on meeting the “dominion and control” relinquishment requirement and its documentation.