



Increasing Charitable Yields with Bushel Gifts

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If you are planning on making a contribution to 4-H, universities, your church or your favorite charitable group, before you write a check, explore the option of gifting grain directly to the charity or tax exempt organization if you are an operating farmer.

To make a charitable contribution, you can either make it in cash or property. If you make it in cash, those funds are exposed to multiple types of taxes before the net proceeds become a contribution. *In the example below, to make a cash contribution of \$1,000 you are going to need to start with \$1,754 of farm income, i.e. you are paying \$754 in taxes in order to have the funds to make cash contribution of \$1,000.* Those taxes would include federal, state and self-employment taxes. But if you make the gift in grain, you are able to take a different route to your objective in making the contribution.

Charitable contributions made by an individual are deductible on your federal income tax return, if you can itemize deductions (Schedule A, Form 1040). General categories of itemized deductions include charitable contributions, medical expenses and a variety of personal taxes. For a joint return for the 2010 tax year, the total of allowable itemized deductions needed to exceed the standard deduction of \$11,400 to receive any tax benefit for those expenditures. And the IRS requires numerous reductions in some categories of itemized deductions before any amount becomes allowable, so it becomes even harder to exceed the \$11,400 amount. So if you do not itemize, you lose all tax value associated with a charitable contribution made in cash. Charitable contributions made by individuals are not deductible on Illinois tax returns in any manner.

So let's review the general process under both methods of contribution and some of the conditions attached to each.

Charitable contribution of cash from the sale of grain by cash basis, operating farmer.

For cash basis operating farmers (individuals) the following would hold for a donation of cash, either in the year of production or the year following production. The grain is sold to generate the cash to make the contribution.

The value of the grain sold is included on Schedule F as taxable income when sold.

The expenses related to the production of that grain stay on Schedule F in the year paid.

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There is a potential charitable contribution deduction for itemized deductions, Schedule A, in the amount of cash donated only if the taxpayer can itemize. If not, then the tax value of the deduction is lost.

Federal, state and self-employment tax are paid on the total value of the grain sold in order to generate the cash for the donation.

Charitable contribution of grain directly to charitable organization by cash basis, operating farmer

Donating the bushels – not the dollars from the bushels!!

For cash basis operating farmers (individuals) the following would hold for a donation of grain, either in the year of production or the year following production.

The value of the donated grain is not included on Schedule F.

The expenses related to the production of that grain stay on Schedule F in the year paid.

There is not a charitable contribution deduction for donated grain (Schedule A) because no income is recognized on the donation.

Federal, state and self-employment tax are not paid on the value of the donated grain.

Procedural guidelines to be followed when gifting grain to a charitable organization.

The gift should be from unsold crop inventory, with no prior sale commitment made prior to the gift. A farmer will gift the grain to the charitable organization and let them decide what to do with it and when to sell it. A letter to the charitable organization summarizing the source of the gift from the farmer and an acknowledgment of the gift by the charitable organization should be kept on file. This may be needed to serve as a substitute for a sales receipt in the yield verification process at FSA offices on the quantity of gifted grain, since the grain sales documents would not be in the name of the farmer, but rather in the name of the charitable organization.

The charitable organization should receive documentation of the grain delivery in the charitable organization's name from the elevator. The charitable organization should be listed as the seller not as a split off the donor's settlement sheet.

After the transfer, the charitable organization should assume costs of storage, marketing and transportation.

Note: There is no tax advantage for making a charitable donation of grain by a crop-share landlord who is not materially participating in the farming operation.

As always, talk to a trusted tax advisor who knows your situation to make sure your circumstances allow you to take advantage of these methods.

Example: Taxes incurred generating funds to make charitable contribution of \$1,000 in cash.

Assumptions:	
Taxpayer is cash basis farmer (individual).	
Taxpayer's farm income is subject to self-employment tax.	
Federal marginal rate =25%, SE tax rate=15.3%, State income tax rate = 5%	
Taxpayer is not itemizing on Federal income tax return	
Step 1 Determination of taxes per \$1,000 grain sold	
Grain Sale Amount	\$ 1,000
Taxes paid per \$1,000 grain sold	
Federal income tax bracket of 25% (marginal rate) applicable to income on Schedule F	\$ (250)
State income tax paid at rate of 5.00 % (Illinois)	\$ (50)
Net Self-employment tax paid after adjusting for deducting 1/2 SE tax	\$ (130)
Federal, state, self-employment taxes paid on sale of \$1,000 of grain. Effective tax rate = 43% (rounded)	\$ (430)
Net proceeds per \$1,000 of grain sold	\$ 570
Step2 Gross amount of grain to sell to net \$1,000 cash contribution	
Pre-tax amount (see footnote) to get \$1,000 for donation in cash	\$ 1,754
<p>Summary: Net Effect - Paid \$754 in additional taxes in order to make \$1,000 cash donation vs. making a \$1,000 donation of grain with no tax.</p>	
b) General formula :	
Net Amount needed=(1-effective tax rate) x Pre-tax amount	
Solve formula for pre-tax amount	
1,000=(1-.4300) x Pre-tax amount (rounded)	