

REGIONAL PARTNERSHIP FOR FOOD WASTE SOLUTIONS

**Tax Incentives when
Donating Food**

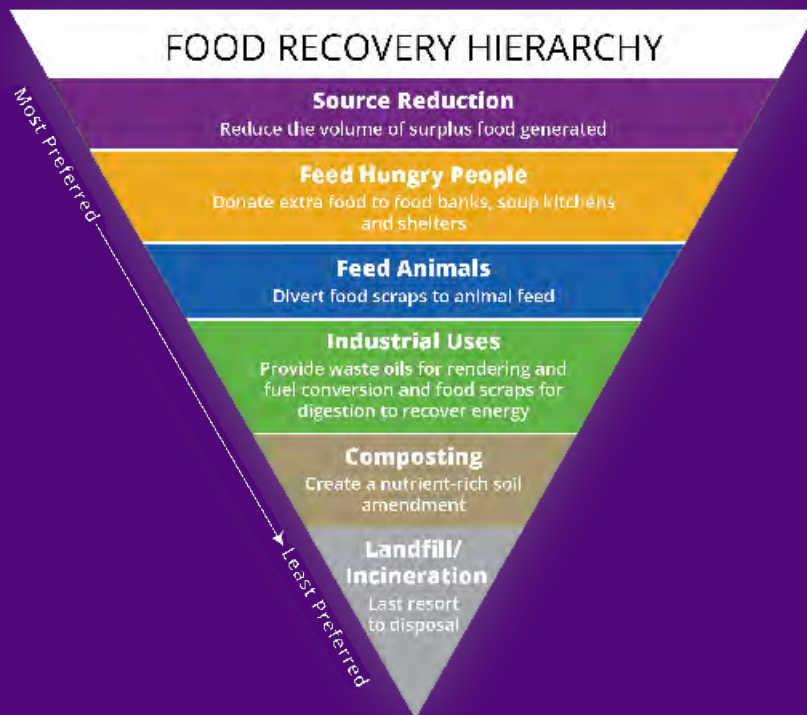


Iowa Waste Reduction Center | University of Northern Iowa

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Introduction

According to the U.S. Department of Agriculture (USDA), over 35 million people in the U.S. grappled with hunger in 2019. Hunger is a serious issue that you can help solve just by donating food to your local food bank or pantry; and you may be eligible for a tax deduction for your donations! Are you throwing away perfectly edible excess food? If you are, consider donation instead. There are two types of deduction; the general tax deduction and the enhanced tax deduction for food donation. Contact your accountant to determine your eligibility based on your filing status and deductions.





Iowa Waste Reduction Center

IWRC

University of Northern Iowa

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Tax Deductions



If you are interested in turning your food waste into a tax deduction through donation, you must be prepared to substantiate your contributions through impeccable record-keeping that details your donation as well as the charity that receives donated goods. The deduction you receive depends on your eligibility, filing status, and any other deductions you claim. Talk to your accountant to help you plan ahead while maintaining proper records that substantiate your contributions.

GENERAL TAX DEDUCTION

The general tax deduction for donating food allows taxpayers to deduct the **cost basis value**; which is either the original value, purchase price, or all costs that went into producing the donated item. For example, let's say a farmer donated a watermelon. If it costs the farmer \$3 to produce a watermelon, but the farmer can sell the watermelon for \$5, the farmer would qualify for a \$3 deduction. Basically, the deduction is in the amount the donated item costs the business, which is often lower than **fair market value**, whereas fair market value is the retail cost. C corporations can deduct up to 10% of their taxable income while businesses other than C corporations, such as S-corporations, LLCs, sole proprietorships, and partnerships where individual owners must file their own personal tax returns can deduct up to 30% of income from the business that donated.

ENHANCED TAX DEDUCTION

The "enhanced" tax deduction for food donations is limited to contributions made by businesses such as C corporations, S corporations, sole proprietorships, partnerships, and limited liability companies. Charitable contributions are generally limited to 15% of a business' **taxable income** for food

donations. Also, the enhanced tax deduction requires food donations to be used to care for the ill, needy, or infants. Charitable contributions may be carried over for up to five years when yearly limits are reached.

CARES ACT (CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT)

Due to the Covid-19 pandemic, a temporary increase in limits is allowed temporarily for 2020 taxes filed in 2021. Charitable contributions of food inventory cannot exceed 25% of a business's **taxable income**. Charitable contributions may still be carried over for up to five years when yearly limits are reached.

CALCULATING ENHANCED DEDUCTIONS

The enhanced tax deduction allows corporations to either deduct, 1) twice the cost basis value of the donated food or, 2) the cost basis value plus one-half of the food's expected profit margin if it were sold at fair market value {retail cost}, whichever is less. Alternatively, in instances where businesses are not required to inventory products or capitalize indirect costs, a deduction for food donations can be utilized at 25% of the fair market value. Once again, if a business has exceeded the cap on donations, they can carry over these donations/deductions for five years.

Record-Keeping and Documentation



Record-keeping is an important part of charitable contributions. In fact, the IRS can and will give accuracy-related penalties when substantiation is not complete on your tax return.

The extent to which you need to keep records, depends on the value of the donation. The higher the donation value, the more types of records you will need to substantiate your contributions. In instances where benefits are received in exchange for your donation including monetary gifts or services, you must provide the value or good faith estimate of the value of these benefits.

Donations valued at over \$5,000 must have an independent appraisal of each donation and the IRS has requirements tied to this appraisal that must be followed. The following are examples of required documentation for charitable contributions, depending on the value of the charitable contributions.

- ✓ A statement from the recipient organization that the charity is exempt from federal income tax and that the donations will be used in accordance with charitable contributions tax laws to feed the ill, needy, or infants
- ✓ A statement from the recipient organization that adequate books and records will be maintained and available upon request to the IRS

- ✓ Receipts with the charity's name, location of the donation, date of the donation, and description of the donated items.
- ✓ Donations valued over \$250 will require receipts from the charitable organization
- ✓ Cost basis of your donation
- ✓ Fair market value of the donated items including a description of how you came to this amount
- ✓ A written acknowledgement from the recipient organization for each donated item
- ✓ Records showing the approximate date you gained possession of the donated items
- ✓ How the value of each donated item was determined

Donating food that would otherwise be tossed in the landfill is a great way to get some money back and help feed your community's food insecure people. Also, the positive PR from donating to such a great cause can strengthen community-based relationships. To get started on your charitable contributions that are tax deductible, follow these steps:

Step 1: Estimate the Value of your Annual Donation

It is important to estimate how much food you will be able to donate in a year's time. This can help you stay organized by obtaining documents that are required to accompany your annual tax return. Documentation is required, however there are different requirements based on the value of your annual donations; the more you donate, the more documentation you will need. If you can estimate the value of your annual donation, you will be able to estimate the approximate tax deduction you will earn and the accompanying documentation you will need from the charity. Finally, the food you donate must be wholesome and you must believe it is safe to consume, meaning you are donating in good faith. Perishable food items that need temperature controls to maintain food safety must be kept safe to consume through refrigeration/freezing prior to donation.

Step 2: Choose an IRS Approved Charity that Accepts Food Donations

The charitable organization that accepts your food donation must be an IRS approved charity, and when utilizing the enhanced tax deduction, donations must be used by the charitable organization to care for the ill, needy, or infants. To find a charity that is approved by the IRS, please visit their website at the following web address: <https://www.irs.gov/charities-non-profits/tax-exempt-organization-search>

Once you have identified an IRS approved charity you are interested in, contact them to discuss the types of food they accept and any policies surrounding these donations. For example, some charities accept prepared foods while others do not. Also, some charities accept foods that are past their expiration date, sell by date, or best by date. You will want to know how far past these dates you are still allowed to donate. Also, ask the charitable organization if they are willing to pick up your donations or if you will need to drop them off. Finally, make certain this charity is approved by the IRS as a qualified charity for a tax deduction and that all paperwork that is required by the IRS will be provided to you by the charity.

Step 3: Contact your Accountant

Let your accountant know you are donating to a charitable organization and have a discussion about the documentation you will need when filing your tax return. Allow your accountant to guide you through the process, identify the records you will need to keep, and decide if you will be using the general tax deduction or the enhanced tax deduction. Also, when utilizing the enhanced deduction, which calculation you will be taking advantage of, 1) twice the cost basis value of the donated food or, 2) the cost basis value plus one-half of the food's expected profit margin if it were sold at fair market value {retail cost}, whichever is less. Your accountant can also help you estimate which will gain you the largest deduction.

Step 4: Keep Pristine Records

Make certain you keep all documents, receipts, original invoices for donated food, and any other documents you receive due to your donation. Get a list from your accountant of all the documentation you will be required to provide to the IRS on your tax return. The difference between great record-keeping and terrible record-keeping can be a hefty penalty from the IRS if required documentation does not accompany your tax return. Not only can you be slammed with penalties, you can lose your deduction. This is a vitally important step in the process of turning your food waste into money in your bank account.

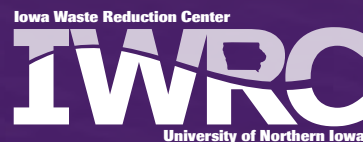


CONCLUSION

There are great benefits when donating food to help feed your community's food insecure population; earning a tax deduction is just one of them. Why not stop tossing your edible food into the landfill and share it with those in need while getting money back for doing so! Just make certain that all the work that goes into donating is rewarded with a tax deduction by choosing an IRS approved charity, talking to your accountant, and keeping great records to include with your tax return. And just so you know, there is federal liability protection for donors of food when the food is donated in "good faith", meaning the food is believed to be safe to consume. For more information about food waste, visit the IWRC's website at <https://iwrc.org/food-waste>.



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