

Gifts of Commodities

Norman County Historical Society (NCHS)
Ada, Minnesota

TIPS FOR MAKING GIFTS OF COMMODITIES

1. **Timing-** a great benefit of commodities is that it doesn't matter if the donation is in the year of production or a later year. Gifts of commodities can be donated from the current year or previous years' harvest.
2. **Available for Cash Basis Farmers.**
3. **Unsold commodity-** The gift should be from unsold crop/commodity inventory, with no prior sale commitment made prior to the gift.
4. **Physical delivery-** Be sure the gift is farm commodities, not warehouse receipts, which could be considered a cash equivalent. The fund must be able to demonstrate "control and dominion" over the gifted property.
5. **Retention of control-** The farmer/rancher should provide no guidance in the transfer agreement as to the retention or sale of the gifted commodity.
6. **Documentation-** Either a properly executed warehouse receipt in the fund's name, or notarized letter of transfer for crops stored on the farm. The original sales invoice should list the fund as seller.
7. **Storage & transportation costs-** After the transfer, the fund should assume costs of storage, marketing, or transportation.
8. **Crop share leases-** Gifting will not work for a crop share landlord. A share of the crop received as a rental payment is considered the equivalent of rental income.

(Donor Name)

(Donor Address)

(City, State, Zip)

Amount of Commodities: _____

Type of Commodities: _____

I wish to transfer the above commodities to benefit: **Norman County Historical Society**

Signature

Date

Commodities Receiver

Phone

Message to Commodities Receiver/Operators: Please send this form along with the appropriate documentation to: Norman County Historical Society, PO Box 201, Ada, MN 56510. Phone 218-784-6904

GIFTS OF GRAIN (OR OTHER COMMODITIES) TO NCHS

Farmers can support Grace Lutheran Church with Agricultural Commodities

A farmer who actively engages in farming can support Norman County Historical Society (NCHS) and have significant tax savings by directly donating grain. (This is true for any agricultural commodity, but grain will be used in this example).

NCHS makes money by selling the donated grain and the farmer gets tax reductions greater than just donating cash. Gifts of agricultural commodities to NCHS would qualify for the tax reductions.

Who Qualifies? Crop share landlords are NOT eligible. A crop share landlord's share of grain is considered rent income and must be reported as such, even if the grain is gifted. A farmer must file as a self-employed person. While there are a few exceptions, make sure you discuss this with your personal tax advisor if you qualify for any of them.

Most farmers don't itemize deductions on Schedule A, and instead take the standard deduction. Thus, there is usually no tax benefit by making cash gifts to charity, unless significant.

However, gifts of grain to NCHS do not have to be claimed as income to the self-employed farmer, but all expenses for growing and harvesting the grain can be deducted.

Giftting grain can result in a triple savings of tax:

- Federal income tax
- State income tax
- Self-employment tax

A farmer does not report a donation of grain to NCHS, but the donation process must be done correctly. Grain must be actually physically delivered; control must be given up; and if on-farm storage is used, it would be best for the farmer to give the charity a notarized letter of transfer.

Further, a farmer cannot donate contracted grain, whether in the spring with a commodity buyer, or with a local elevator to deliver a specific quantity of grain according to a price on the day of contract.

The easiest way to donate grain for tax savings, is to simply deliver grain without any prior sale commitment to your grain buyer and tell them to put a certain quantity of grain in the name of NCHS. NCHS then contacts the elevator to sell the grain, NOT the farmer.

A Farmer cannot haul in bushels, tell the elevator to sell all the bushels, and then donate a specific dollar amount to a charity. That's the same as a cash donation. This is the reason a farmer needs to contact his or her tax advisor how to set this up properly so as to save on income taxes.

How much difference does this make?

Short example:

Farmer Joe never itemizes deductions and donates 1,000 bushels of wheat to NCHS. The cost to produce this wheat is \$1,000 and the proceeds from the sale by the charity amounts to \$5,000.

Joe deducts the \$1,000 of production costs on Schedule F. No income is reported on Joe's tax return since NCHS gets paid for the grain gifted to it. Joe does not tell the elevator when to sell the grain, the charity is required to contact the elevator to sell any gifted grain.

What are the tax savings for properly gifting grain to charity?

Assuming a 24% Federal income tax rate, 2.04% North Dakota income tax rate, and 15.3% Self-employment tax rate, the following tax savings would result if Joe gifted the grain instead of selling it and then donating the cash.

\$1,200	Federal income tax (\$5,000 x 24%)
\$ 268	State income tax (\$5,000 x 5.35%)
<u>\$ 765</u>	Self-employment tax (\$5,000 x 15.3%)

-\$2,233 Tax savings, a little over 41% for something that would result in zero tax benefit with a cash donation!

By donating wheat instead of selling it and then donating cash, Joe saves \$2,263 in taxes, besides being able to deduct all the costs of growing the gifted grain.

While NCHS will have to contact the elevator to authorize selling gifted grain, Farmer Joe should receive a letter of thanks, or acknowledgement letter, from NCHS describing what was received and when. All paperwork at the elevator should have the NCHS name on it for any gifted grain, such as warehouse receipts.

If Farmer Joe hauls in 1,000 bushels of wheat and tells the elevator to put 200 bushels in his charity's name, Farmer Joe can only sell his 800 bushels. Joe cannot tell the elevator to sell all the grain and send a check for 200 bushels of wheat, the charity has to decide when to sell their 200 bushels. **This is a very important step.**

That's why this is important to be set up properly. But as shown above, it's pretty easy. Haul in a load of grain and tell the elevator to put so many bushels in NCHS.

Don't give cash, give grain.

Be sure to consult your personal tax advisor to get this done the right way.