



San Antonio Food Bank
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Tax Benefits of Donating

Can my company realize tax advantages by donating product to the San Antonio Food Bank?

Yes! This fact sheet summarizes the effects that tax laws have on the treatment, under the Internal Revenue Code, of donations of appreciated ordinary income property when contributed by corporations to charitable organizations. A common example of ordinary income property is property held primarily by the donor for sale to customers in the ordinary course of business.

This fact sheet should be used only as a guide. Donors are advised to consult with their tax advisor in applying the appropriate deduction.

Allowable Deductions for Charitable Donations of Ordinary Income Property

With two exceptions, the relevant discussed below, the general rule since 1969 states that a taxpayer who contributes appreciated inventory or certain other ordinary income property is permitted a charitable deduction only for any amount equal to the taxpayer's basis in the contributed property, not its fair market value.

The U.S. Congress, in the 1976 Tax Reform Act (Section 2135), further refined the statute to allow corporate donors an increased deduction, under certain circumstances, for contributions of ordinary income property to a public charity or to a private operating foundation.

The mission of the San Antonio Food Bank is to acquire and distribute at the lowest possible cost adequate and nutritious food and related products to charitable organizations that provide for needy individuals and families.

Under I.R.C. Section 170 (e)(3), a corporation is entitled to a deduction with respect to a contribution to a public charity or to a private operating foundation of appreciated property described in I.R.C. Section 1221 (1) and (2) (that is, certain types of ordinary income property) in an amount equal to:

- A. The sum of ½ of the unrealized appreciation (market value minus cost=appreciation) plus the taxpayer's cost, but
- B. Not in excess of twice the cost of the contributed property. I.R.C. Section 170 (e) (B).

Example

Selling Price:	\$4.00
Cost:	\$1.00
Gross profit equals \$3.00.	
½ of \$3.00 equals \$1.50.	
The maximum deduction can never exceed two times cost (\$2.00). Therefore, gross profit element is limited to \$1.00.	
Total Deduction:	\$1.00
	\$2.00

Effect of 1986 Tax Changes

According to William G. Kistner, Partner, Ernst & Whinney: The Tax Reform Act of 1986 does not

substantially impact the computation of in-kind contributions. However, the new law may substantially increase the deductible amount of in-kind contributions.

The Tax Reform Act of 1986 changed and expanded the inventory costing rules. Except for small retailers and wholesalers and certain farmers, all taxpayers that maintain inventories must now include in their inventory costing system many expenses that were previously expensed currently. The effect is that the inventory cost of each inventory item is increased. If the business doesn't get the item out of inventory in this taxable year, either by sale or abandonment of gift, those previously expensed costs that now must be attributed to inventory won't reduce the business' taxable income. So, to the extent that the businesses affected by these new costing rules make charitable donations of inventory cost rules increase the cost of an item, they also raise the limitation on the charitable deduction.

Many tax authorities estimate that the new rules will increase the inventory cost by 10% to 15%. This means that the 'twice the cost' limitation will be increased 20% to 30%.

Thus, the new tax laws have increased the benefits of donating.