

“The deep rewards of giving go to those who give out of a concern for others, and take pains to see that their giving is wisely done...”

F. Emerson Andrews
(1902-1978)
American author



PLANNED GIVING FOR THE UNIVERSITY OF IOWA

GIFTS OF GRAIN

GIVE GRAIN DIRECTLY AND SAVE TAXES

For donors who actively engage in farming on a cash basis, significant tax savings may be achieved by donating grain directly to the University of Iowa rather than selling the grain and donating cash.

HOW IT WORKS

Cash gifts to a charity are deductible only if a donor itemizes deductions on Schedule A. Because many farmers take the standard deduction, often no tax benefit is gained by making charitable gifts of cash. By directly donating grain to charity, however, the cash basis farmer can exclude the sale of the grain from income, which can result in a triple tax savings:

1. Federal income tax savings (up to 37%);
 2. State income tax savings (up to 8.98% in Iowa); and
 3. Self-employment tax savings (15.3%)
- **No charitable income tax deduction:** There is no charitable income tax deduction for the donated commodity on Schedule A.
 - **Expenses related to production:** Typically the expenses related to the production of the donated grain are deductible on Schedule F.
 - **Crop share landlords not eligible:** A crop share landlord's share of crops is considered rental income and must be reported as such on the landlord's tax return.
 - **Cash basis farmer only:** The farmer must be a cash basis taxpayer.
 - **Timing of gift:** Gifts of grain can be donated from the current or previous years' harvests.
 - **Unsold commodity:** The farmer cannot sell the commodity and then order the sales proceeds to be sent to the charity. The gift must be from unsold grain inventory with no prior sale commitment.

(over)

Next Steps

- Consult with your tax preparer or financial adviser to determine the tax implications prior to making a gift.
- Notify us of your intention to make a gift by completing our Gift of Grain Notification Form and either mailing it to us at the address listed in the left margin or contact our Special Gifts Administrator at 800-648-6973.
- Deliver the grain to the elevator and tell them that you wish to transfer ownership of X number of bushels (or X fraction of the load) to the University of Iowa.
 - Request the elevator to issue a warehouse storage receipt **in the name of the State University of Iowa Foundation** and send it to us. Instruct the elevator not to sell the grain until they are contacted by us.
 - Notify us that the grain is at the elevator.
- The UI will then contact the elevator to direct the sale of the grain and will send you an acknowledgement letter. We will use the sales proceeds for the purposes you direct at the University of Iowa.

- **Physical delivery:** The commodity should be put into the name of the charity when it is delivered to the elevator and a warehouse receipt issued in the name of the charity. For grain stored on the farm, the farmer must deliver to the charity a notarized letter of transfer.
- **Giving up control:** The farmer must give up dominion and control over the commodity and cannot offer any guidance as to when to sell the commodity. The charity must direct the sale and the original sales invoice must list the charity as the seller.
- **Storage, transportation, and risk:** After the transfer, the charity assumes the costs of storage, transportation, and marketing, and bears the risk of any loss.
- **Use professional advisers:** Donors should always consult with their professional tax and/or legal advisers to determine tax implications specific to their situation prior to making the gift.

EXAMPLE OF TAX SAVINGS FROM A GIFT OF GRAIN

Jack Smith, a cash-basis grain farmer who takes the standard deduction every year, donates 1,250 bushels of corn to the University of Iowa. His cost of production is \$2,000, and the proceeds from the sale of the corn by the UI is \$5,000.

Jack is entitled to deduct his \$2,000 of production expenses on Schedule F. In addition, he will not be required to report the proceeds from the sale of the corn as income. If we assume that Jack is in the 25 percent federal and 8.98 percent state tax bracket, the following are the tax savings that result when Jack reduces his taxable income by making a gift of the corn to the UI:

\$1,250	Federal income tax (\$5,000 x 25%)
\$ 449	State income tax (\$5,000 x 8.98%)
<u>\$ 765</u>	Self-employment tax (\$5,000 x 15.3%)
\$2,464	Tax savings

By giving the corn rather than selling it outright and making a cash gift, Jack saves \$2,464 in taxes. In addition, he can still deduct the \$2,000 of production expenses he incurred to grow the corn. (Note: If Jack itemizes his deductions rather than claiming the standard deduction, his additional tax savings achieved by making a gift of corn rather than cash is limited to the savings on self-employment tax.)

For more information, please visit uifoundation.planningyourlegacy.org, or contact:

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