

Charitable Giving by Gifting Grain

A farmer who actively engages in farming can have significant tax savings by donating grain directly to charity (this is true for any agricultural commodity, but grain will be used in this example). The charity makes money by selling the donated grain and the farmer gets tax reductions greater than just donating cash. Gifts of agricultural commodities to a fund at the North Dakota Community Foundation would qualify for the tax reductions and help support local projects and programs that benefit area residents.



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

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 the North Dakota Community Foundation do not have to be claimed as income to the self-employed farmer, yet, all expenses for growing and harvesting the grain can be deducted.

Gifting grain to the North Dakota Community Foundation can result in a triple savings of tax, such as:

- Federal income tax,
- State income tax,
- Self-employment tax.

A farmer does not report a donation of grain to charity, but this must be done properly. 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 the North Dakota Community Foundation (and specify the fund at NDCF you wish to benefit from the gift). The foundation 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. There are specific donation cards available at some local elevators that establish the process correctly and make this easier for farmers to donate whatever quantity of commodity they would like.

How much difference does this make?

Farmer Dude never itemizes deductions, and donates 1,000 bushels of wheat to the North Dakota Community Foundation. The costs to produce this wheat is \$1,000, and the proceeds from the sale by the charity amounts to \$5,000.

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

\$1,200	Federal income tax (\$5,000 x 24%)
\$ 102	State income tax (\$5,000 x 2.04%)
\$ 765	Self-employment tax (\$5,000 x 15.3%)

By donating wheat instead of selling it and then donating cash, Dude saves \$2,067 in taxes, besides being able to deduct all the costs of growing the gifted grain.

If farmer Dude hauls in 1,000 bushels of wheat and tells the elevator to put 200 bushels in his charity's name, farmer Dude can only sell his 800 bushels. Dude 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.

Don't give cash, give grain.

Wayne Hauge, Retired CPA and farmer
Ray, North Dakota

Map of North Dakota showing the locations of 100,000+ people with a college degree. The map is color-coded by county: yellow for counties with 100,000+ people, and light blue for counties with fewer than 100,000 people. A legend in the bottom right corner identifies the colors: yellow for '100,000+' and light blue for '<100,000'. The map shows a high concentration of college graduates in the eastern and central parts of the state, particularly in the counties colored yellow.