A Guide to Food Donation Tax Deductions

Overview

Your food donations can save you money! Use this guide to learn more about how your business can maximize your cost savings through food donation tax deductions. Charitable food donation is eligible for federal tax incentives and enhanced tax deductions, provided that donations meet eligibility criteria. This is a tangible benefit available to your business, and this guide can help you understand which tax benefit is right for you.

Note: *It is the responsibility of the donating business to obtain the necessary donation receipts and documentation required to claim tax deductions. This document is a brief summary and does not seek to provide legal or tax advice. Seek legal counsel for tax filing.*

Understanding the differences between General and Enhanced Tax Deductions for Food Donations

Businesses can use **either the general tax deduction OR the enhanced tax deduction** to calculate food donation tax savings**.** *If a food donation does not qualify for the enhanced tax deduction, you may still be able to use the general tax deduction.*

	General Tax Deduction	Enhanced Tax Deduction
What is it?	Claiming a tax deduction in the amount of the donated food's basis value (the cost the business paid to buy the food).	A tax deduction that exceeds the basis value of donated food. Qualifying businesses can deduct the lesser of either: (a) twice the basis value of the donated food or (b) the basis value of the donated food plus one-half of the food's expected profit margin
What are the eligibility requirements?	The donation must be used for charitable purposes and given to a qualified organization as laid out under Section 170 of the Internal Revenue Code (IRC).	The recipient of the donated food must be a qualified 501c3 not-for-profit organization, and the food must be used for the care of the ill, needy, or infants. The donated food must be used exclusively for charitable purposes. The food may not be transferred by the recipient organization in exchange for money, other property, or services.
Are there limits?	C-corporations: cannot deduct more than 10% of their taxable income for the year. Businesses other than C-corporations (including S-corporations, sole proprietorships, and some LLCs): cannot deduct more than 30% of the business' total taxable income for the year.	All businesses –including C-corporations, S-corporations, LLC's partnerships, sole proprietorships, and other business entities– can deduct up to 15% of their taxable income for food donations, as long as the food donation meets the eligibility requirements above.

	General Tax Deduction	Enhanced Tax Deduction
What paperwork do I need?	A donation record and/or receipt.	Written statement from the receiving organization with the following information: • Description of donated food, with date of receipt. • A statement that the food will be used in compliance with the requirements of IRC 170e3. • A statement that the receiving organization is recognized as tax exempt as a 501c3. • A statement that adequate records will be kept and made available to the IRS, if requested.

Example

Let's walk through an example scenario: your business donated 500 pounds of onions to a local non-profit organization.

1 First, we need to understand and identify some important values:

	Definition	Example Values
Basis Value	Cost the business paid to buy the food.	**$200**
Fair Market Value	What the food item could have been sold for.	**$300**
Profit Margin	Fair Market Value – Basis Value	**$100**

2 Next, let's calculate and compare potential tax deductions under the General Tax Deduction and Enhanced Tax Deduction scenarios. Remember, under the enhanced tax deduction situation, you are eligible to **deduct the lesser of the two calculation methods**:

General Tax Deduction	Enhanced Tax Deduction
Basis Value = **$200**	Method 1: **Basis Value** x 2 **$200** x 2 = $400 Method 2: **Basis Value** + (**Profit Margin**/2) **$200** + (**$100**/2) **$200** + ($50) = **$250**

In this scenario, your business could qualify for the enhanced tax deduction of **$250** for this donation of onions.

3 Finally, use your tax deductions to determine what your overall tax savings are.

Example: **$250** tax deduction @ 22% tax rate
$250 x .22 = **$55 tax savings**

Note: *Tax deductions lower the total amount of your taxable income. To calculate your tax savings, which is the dollar amount that your business saved as a result of this deduction, multiply your tax deduction by your tax rate.*