PLANNED GIVING FOR THE UNIVERSITY OF NORTHERN 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 Northern 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%)

EXAMPLE OF TAX SAVINGS FROM A GIFT OF GRAIN

Pam and Jon Smith, cash-basis grain farmers who take the standard deduction every year, donates 1,250 bushels of corn to the University of Northern Iowa. Their cost of production is $2,000, and the proceeds from the sale of the corn by the UNI is $5,000.

Pam and Jon are entitled to deduct their $2,000 of production expenses on Schedule E. In addition, they will not be required to report the proceeds from the sale of the corn as income. If we assume that they are in the 25 percent federal and 8.98 percent state tax bracket, the following are the tax savings that result when Pam and Jon reduces their taxable income by making a gift of the corn to the UNI.

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

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<thead>
<tr>
<th>Amount</th>
<th>Description</th>
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<tbody>
<tr>
<td>$1,250</td>
<td>Federal income tax ($5,000 x 25%)</td>
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<tr>
<td>$ 449</td>
<td>State income tax ($5,000 x 8.98%)</td>
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<tr>
<td>$ 765</td>
<td>Self-employment tax ($5,000 x 15.3%)</td>
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<tr>
<td>$2,464</td>
<td>Tax savings</td>
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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.

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.

For more information, please visit uni.planningmylegacy.org, or contact:

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