

# Donating For a Tax Deduction

How can donating unused product affect your bottom line?

By Carrie Burns



Did you grow more product than you can sell? Donating can turn that would-be shrink into cash.

I recently wrote an article for our sister publication *Lawn & Garden Retailer*. In it, I suggested independent garden centers get involved in their communities, primarily to promote their businesses while giving to those in need — which has been found to be important to consumers. So, why am I telling you this? What does this have to do with you? Do you need to promote yourself to consumers? Sometimes, but that is just one of the reasons giving to charity is important for greenhouse growers.

The *Lawn & Garden Retailer* article got us at *GPN* thinking about all of the product you — greenhouse growers — donate or could donate to churches, schools, fundraisers, etc. Doing what's right, making other people happy, treating others as you would like to be treated, even getting your name out there for product and name recognition — of course, these should be the overriding reasons to donate, but let's put all of those things we already know aside and talk about what giving to charity can do to your bottom line. How many times have you filled your orders only to find you have another 100 or so poinsettias to get rid of? Is it just shrink? If you don't donate it to a local charity, you should. According to section 170(e)(3) of the U.S. Internal Revenue Code, you can donate inventory to a

qualified not-for-profit organization and receive a tax deduction.

As I began researching this information, I realized just how many provisions and qualifications there are for donating product — so much that we don't have that much space in the magazine. So, what I will do is try to cut out all of the information you don't need and focus on what most likely pertains to you, the greenhouse grower, though each company is different and needs to research the many aspects of deductions through donations.

## WHO TO GIVE TO

Do you get asked often to donate to festivals or parties? These may or may not be tax deductible, depending on the purpose and/or the host of the event. Who or what organization you donate to matters greatly when determining deductions. In order to receive deductions you must donate to a 501(c)(3) non-profit organization. According to the Internal Revenue Service (IRS), only five types of organizations qualify as charitable organizations.

- A community chest, corporation, trust, fund or foundation organized or created in or under the laws of the United States, any state, the District of Columbia or any possession of the United States (including Puerto Rico). It must be organized and operated

only for one or more of the following purposes: religious, charitable, educational, scientific, literary or the prevention of cruelty to children or animals. Certain organizations that foster national or international amateur sports competition also qualify.

- War veterans' organizations, including posts, auxiliaries, trusts or foundations organized in the United States or any of its possessions.

- Domestic fraternal societies, orders and associations operating under the lodge system. A contribution to these is deductible only if it is to be used solely for charitable, religious, scientific, literary or educational purposes or for the prevention of cruelty to children or animals.

- Certain nonprofit cemetery companies or corporations. Your contribution to this is not deductible if it can be used for the care of a specific lot or mausoleum crypt.

- The United States or any state, the District of Columbia, a U.S. possession (including Puerto Rico), a

political subdivision of a state or U.S. possession, or an Indian tribal government or any of its subdivisions that perform substantial government functions. To be deductible, your contribution to this type of organization must be made solely for public purposes.

### WHAT TO DO

Of course, there is paperwork you need to obtain, and there are forms you will need to fill out. According to the IRS, "If you claim a deduction of at least \$250 but not more than \$500 for a non-cash charitable contribution, you must get and keep an acknowledgement of your contribution from the qualified organization. If you made more than one contribution of \$250 or more, you must have either a separate acknowledgement for each or one acknowledgement that shows your total contributions."

This acknowledgement must be given on or before the earlier of the date you file your return for the year you make the contribution or the due date, including

extensions, for filing the return. The written acknowledgement must contain certain information:

- The name of the charitable organization.
- The date and location of the charitable contribution.
- A reasonably detailed description of the property.
- A description (but not necessarily the value) of any property you contributed.
- Whether the qualified organization gave you any goods or services as a result of your contribution (other than certain token items and membership benefits).
- A description and good faith estimate of the value of any goods or services described above.

You must also keep reliable written records that contain:

- The name and address of the organization to which you contributed.
- The date and location of the contribution.
- A description of the property, in detail, under reasonable circumstances.
- The fair market value of the

## Exchange Organizations

There is a way to donate and get tax deductions without having to fill out all of the paperwork and do all of the grunt work. Exchange organizations, the most popular of which is National Association for the Exchange of Industrial Resources (NAEIR), a nonprofit organization that solicits donations of valuable, new merchandise from American corporations and redistributes the merchandise to nonprofit organizations, churches and schools who are members of NAEIR.

NAEIR is a 501(c)(3) nonprofit, gifts-in-kind organization and has more than 9,500 members. It has received donations from more than 7,800 corporations and has distributed more than \$1.9 billion worth of merchandise during its 26 years of operation.

NAEIR solicits donations from manufacturers, wholesalers and retailers across the United States. In this program, schools and nonprofit organizations pay a membership fee to participate. Organizations that become NAEIR members must agree to use the merchandise received through NAEIR in accordance with IRC section 170(e)(3), which states that the merchandise must be used for the care of the ill, needy or minors and cannot be bartered, traded or sold. The merchandise can be given directly to the qualifying individuals and organization it serves or used in the administration of the organization.

Once merchandise is received at NAEIR, it is sorted, processed and cataloged. The materials are then offered to NAEIR members through a variety of programs.

You can find out more about NAEIR at [www.naeir.org](http://www.naeir.org).



*Do you have some crops that are not ready to go and some that are ready to go but have nowhere to go? Consider donating them.*

## management

property at the time of the contribution and how you figured the fair market value.

- The cost or other basis of the property if you must reduce its fair market value by appreciation.

- The amount you claim as a deduction for the tax year as a result of the contribution, if you contribute less than your entire interest in the property during the tax year.

- The terms of any conditions attached to the gift of property.

Note that there is additional information needed for deductions of \$500 or more.

As you saw above, you must determine the fair market value of your contribution. Fair market value is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller.

### WHAT YOU GET

According to an *Entrepreneur* magazine article, "the deduction you can take is based on the type of structure you've selected for your business. If you're organized as an S corporation, a partnership or a sole proprietorship and you donate

inventory to a charity that uses the goods to assist the sick, the poor or children you're generally able to take a tax deduction for the cost of producing the inventory. For companies organized as C corporations, the deduction rises to the cost of the inventory plus half the difference between that cost and the inventory's fair market value. In this case the deduction can't be more than twice the cost of the goods."

Like I said earlier, there is so much information to be considered when it comes to deductions. A financial consultant or your company attorney will be of great help when thinking about making contributions and researching tax deductions. Make sure to visit [www.irs.gov](http://www.irs.gov) for more information. **GPN**

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### LearnMore

For more information related to this article, go to [www.gpnmag.com/lm.cfm/gp030509](http://www.gpnmag.com/lm.cfm/gp030509)

## Charitable Contributions

The following is a list of contributions you can and cannot deduct.

### Deductible

#### As Charitable Contributions:

- Churches, synagogues, temples, mosques and other religious organizations
- Federal, state and local governments, if your contribution is solely for public purposes (for example, a gift to reduce the public debt)
- Nonprofit schools and hospitals
- Public parks and recreation facilities
- Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys and Girls Clubs of America, etc.
- War veterans' groups
- Expenses paid for a student living with you, sponsored by a qualified organization
- Out-of-pocket expenses when you serve a qualified organization as a volunteer

Source: Internal Revenue Service

### Not Deductible

#### As Charitable Contributions:

- Civic leagues, social and sports clubs, labor unions and chambers of commerce
- Foreign organizations (except certain Canadian, Israeli and Mexican charities)
- Groups that are run for personal profit
- Groups whose purpose is to lobby for law changes
- Homeowners' associations
- Individuals
- Political groups or candidates for public office
- Cost of raffle, bingo or lottery tickets
- Dues, fees or bills paid to country clubs, lodges, fraternal orders or similar groups
- Tuition
- Value of your time or services
- Value of blood given to a blood bank

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