

ENHANCED TAX DEDUCTIONS FOR FOOD DONATIONS

HOW THE DECEMBER 2015 LEGISLATION CAN HELP YOUR BUSINESS

15%

When donating surplus food to 501(c)3 nonprofits, Section 170(e)(3) of the U.S. Tax Code stipulates that businesses and farms are eligible for enhanced tax deductions, **up to 15% of their net income**.

In many cases, the **tax deductions received from donating surplus product** are **greater than the tax shield** that is earned from liquidating or disposing of the goods.



This tax benefit comes at a time when Americans are increasingly looking to organizations' community engagement and environmental stewardship initiatives as drivers of their purchasing decisions.

Taking advantage of enhanced tax deductions is a great way to:



**IMPROVE
YOUR
BOTTOM
LINE**



**ATTRACT
& RETAIN
TALENT**



**IMPACT
LOCAL
NONPROFITS**

HERE'S WHAT YOU NEED TO KNOW ABOUT HOW ENHANCED TAX DEDUCTIONS FIT INTO YOUR ORGANIZATION.

WHICH DATA SHOULD I TRACK?

In order to quantify the potential tax benefits, businesses should track both the **Fair Market Value ("FMV")** and **Cost Basis ("Cost")**.

FMV: The price at which comparable items are being sold elsewhere in the market.

COST: Cost of producing/acquiring the food (or 25% of FMV for certain farms and small businesses).

There are **two equations** for determining the deductible amount. Businesses can **deduct the lesser amount** of the two options below:

Method 1: $\text{Cost} + 1/2 (\text{FMV} - \text{Cost})$

Method 2: $\text{Cost} \times 2$

HOW MUCH CAN I CLAIM?



HERE'S AN EXAMPLE: A distributor donates apples with an FMV of \$50. The cost basis (how much it costs the distributor to buy the apples) is \$10. The expected profit margin is \$40 (\$50 - \$10). The distributor can deduct the lesser of the following values:

METHOD 1: $\text{Cost} + 1/2 (\text{FMV} - \text{Cost})$

$$\begin{array}{|c|} \hline \$10 \\ \hline \end{array} + 1/2 \begin{array}{|c|c|} \hline \$10 & \$10 \\ \hline \$10 & \$10 \\ \hline \end{array} = \begin{array}{|c|} \hline \$10 \\ \hline \end{array} \begin{array}{|c|} \hline \$10 \\ \hline \end{array}$$

METHOD 2: $\text{Cost} \times 2$

$$\begin{array}{|c|} \hline \$10 \\ \hline \end{array} \times 2 = \begin{array}{|c|} \hline \$10 \\ \hline \end{array} \begin{array}{|c|} \hline \$10 \\ \hline \end{array}$$

In this particular case, the distributor can deduct \$20, or twice the Cost.

WHERE CAN I FIND MORE INFORMATION?

GOOD NEWS! We're here to help. Sign up for Spoiler Alert today to learn how we can help you find charitable outlets for your surplus food and capture the necessary information you need to claim tax benefits. Learn more at foodspoileralert.com.

