Gifts of Grain & Livestock

Commodity Gifts Can Save Taxes

DALLAS SEMINARY FOUNDATION

If you raise livestock or crops for a living, you may save on your taxes by making outright gifts of those items. If you donate a commodity prior to sale, you may not have to claim the sales proceeds as income. This gift can reduce your state and federal taxes as well as your selfemployment taxes.

Consider the case of Jim and Jane Farmer. They want to make a $10,000 charitable contribution to Dallas Theological Seminary. They have 1,575 bushels of wheat valued at $6.35 per bushel. They are trying to decide whether to donate the wheat to DTS or to sell it and donate the cash.

If they sell the grain and donate $10,000 from the sales proceeds, they may be eligible for an income tax deduction for the cash gift. However, their tax savings would be only $3,000 (25% federal tax bracket + 5% state). And, if they take the standard deduction rather than itemizing their deductions, there would be no tax savings as a result of the cash gift.

What would happen if they donate the wheat instead of the cash? They would transfer $10,000 of value to the Seminary and avoid the taxes associated with the sale of the wheat. Assuming Jim and Jane have not exceeded the self-employment tax limit, they will save 15.3%, or $1,530 of self-employment tax. They will also save 25%, or $2,500 of federal income tax, and 5%, or $500 of state income tax. Their total tax savings is $4,530.

By donating cash, they may save $3,000 in taxes. By donating the wheat, they will save $4,530 in taxes. The additional tax savings is due mainly to the avoidance of the self-employment tax.

Commodity gifts such as crops and livestock bypass the self-employment tax, resulting in up to 50% greater tax savings. So gifts such as this could make a lot of sense for those who make a living in this field.