What Can I do to Help?
"Our Neighbors' Daily Bread"

In an effort to benefit the less fortunate, farmers have an opportunity to donate to the Montana Food Bank through a program sponsored by the Montana Grains Foundation (MGF). The food bank is in need of flour for their kitchens and MGF, through the not-for-profit program "Our Neighbors' Daily Bread," would buy flour with funds received through donated bushels of grain, from Montana flour mills, and provide it to the food bank. But how can the farmers get involved?

What can the farmers do?
This is an opportunity for farmers from across Montana to be able to donate to a worthy cause. When farmers deliver their grain to an elevator, they can designate a certain amount of their bushels as a donation to "Our Neighbors' Daily Bread." An account in the name of "Our Neighbors' Daily Bread" would be set up at each elevator and the farmer will be given a receiving ticket showing the bushels they brought in, as well as the bushels that they are donating. Once the receiving ticket has been given to the bookkeeper, the bookkeeper will complete the paperwork showing the farmers ownership in his bushels and the "Our Neighbors' Daily Bread" program's ownership in the donated bushels.

When the farmer sells his grain, it will also trigger the sale of the donated grain. At the settlement date two checks will be cut: one check to the farmer and the other to "Our Neighbors' Daily Bread." The donation check will then be mailed to the Montana Grains Foundation. The Montana Grains Foundation is a 501(c)(3) organization established by MGGA to handle charitable donations. Upon receiving the check, the Foundation will issue a donation receipt to the farmer. A separate receipt will be issued for each donation regardless of amount. Also, if a farmer would like to donate by cash or check, they can send their money directly to the Foundation at:

Montana Grains Foundation
PO Box 1165
Great Falls, MT 59403-1165

The Foundation will hold the money for "Our Neighbors' Daily Bread" and when the Montana Food Bank needs flour for their kitchens, they will contact the Foundation and the Foundation will purchase flour from one of the flour mills in Montana. The food bank will be responsible for picking up and delivering the flour to its kitchens, thereby eliminating freight costs for "Our Neighbors' Daily Bread."

How this would work
A farmer hauls in 600 bushels of wheat to the local elevator. The farmer donates 10 bushels to "Our Neighbors' Daily Bread" and holds 590 bushels for himself. The farmer will obtain a receiving ticket showing the 600 total bushels hauled in, 10 bushels being donated to "Our Neighbors' Daily Bread," and the 590 bushels that the farmer is personally selling. A few days later the farmer sells his wheat for $6.00 a bushel. By

selling his wheat, the farmer also has triggered the sale of the wheat that he donated. The elevator will cut a check to the farmer for his amount and a check to "Our Neighbors' Daily Bread" for $60 (10 bushels x $6.00/bushel) from the sale of the wheat. The check will be sent to the Montana Grains Foundation, where they will receive the money and issue a donation receipt to the farmer representing his $60 donation.

Tax Consequences

The tax consequences of this program may vary, depending upon the type of farming entity that makes the donation.

Sole Proprietor
As a cash basis taxpayer, a farmer's donation of grain is not tax deductible as a charitable contribution. Per Treasury Regulation §1.170A-1(c)(4), charitable contributions of grain are limited to the farmer's basis in the grain, in which a farmer has none. All of the costs associated with raising the grain are deducted as paid and are not includible as cost basis in the grain. Even though the donation is not deductible as a charitable contribution, the amount of the donation does NOT have to be included in farming income. The elimination of farming income could potentially decrease self-employment (SE) and ordinary income taxes for the farmer. There is no need to figure the proportion of expenses attributable to the grain that the farmer is selling and donating. The full amount of allowable expenses incurred during the production of the wheat can still be deducted as a farm expense. Alternatively, if a farmer decides to sell his grain and then make a cash donation, the donation will be considered charitable and can only be deducted if the farmer itemizes his deductions. As an itemized deduction, the donation can only reduce ordinary income tax and not SE tax.

Partnership
In a partnership, the partnership passes through any income, loss and itemized deductions on to each partner. A donation of grain will result in a reduction of farming income to each partner. Farming income passed through to a partner is subject to SE tax and by reducing farming income each partner could potentially lower their SE tax. If the partnership sells the grain first and then makes a cash donation, the portion of the donation will pass through to each partner and can only be deducted as an itemized deduction on each partner's individual tax return. Remember, as an itemized deduction, the donation can not reduce SE tax, but may only reduce ordinary income tax.

C Corporation
For a C corporation, a donation of grain can be treated as a reduction in gross income or as a charitable donation. Either method could result in the same tax effect. Most corporations have no basis in their grain, since like an individual farmer, the costs are deducted as incurred. The donation will result in a reduction of gross income and taxable income. If the corporation sells the grain first and then donated some of the cash proceeds, the donated cash becomes a charitable deduction. Charitable contributions are treated much the same as any other ordinary deduction and could reduce taxable income. Since a C corporation is not subject to SE tax, a donation of grain or cash will have the

same effect on potential ordinary income taxes. Charitable donations by a C corporation do have some limitations, so the farmer should consult with their tax advisor.

S Corporation

Much like a partnership, an S corporation does not pay taxes on the income it generates, but instead, passes farming income through to its shareholders. Charitable contributions also pass through to each shareholder as a potential itemized deduction. S corporations differ from a partnership in that farming income passed through to the shareholders is not necessarily subject to SE tax. A donation of grain could potentially reduce ordinary income taxes, while a cash donation could potentially reduce income taxes only if the taxpayer itemizes.

Estates & Trusts

Due to the complex nature of making grain donation through an estate or trust, it is in a farmer's best interest to contact his tax advisor about the proper treatment of the donation.

As this analysis indicates, the tax implications of the donation vary as each farmer's tax situation is different. All farmers should contact their tax advisor for the most appropriate tax treatment based on their circumstances.

By Matt Wagner, CPA

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