

# A Guide to Food Donation Tax Deductions

## Overview

Your food donations can save you money! Use this guide to learn more about how your business can maximize your cost savings through food donation tax deductions. Charitable food donation is eligible for federal tax incentives and enhanced tax deductions, provided the eligibility criteria is met. This is a tangible benefit available to your business, and this guide can help you understand which tax benefit is right for you.

## Understanding the Enhanced Tax Deductions Benefits for Food Donations

Businesses can use either the general tax deduction OR the enhanced tax deduction to calculate food donation tax savings. If a food donation does not qualify for the enhanced tax deduction, you may still be able to use the general tax deduction.

**Enhanced tax deduction:** Under the enhanced deduction, all businesses may deduct up to 15% of their taxable income for food donations. See more about certain criteria in table below.

**General (non-enhanced) tax deduction:** Businesses may claim a tax deduction in the amount of the property's basis, the value at which the goods can be sold. Businesses other than C-corporations cannot deduct more than 30% of the business' total taxable income each year. C-corporations generally cannot deduct more than 10% of their taxable income for the year.

## About Enhanced Tax Deductions

<b>What is it?</b>	A tax deduction that exceeds the basis value of donated food. Qualifying businesses can deduct the lesser of either: (a) Twice the basis value of the donated food or (b) The basis value of the donated food plus one-half of the food's expected profit margin
<b>What are the eligibility requirements?</b>	<ol style="list-style-type: none"><li>1. The recipient of the donated food must be a qualified 501c3 not-for-profit organization, and the food must be used for the care of the ill, needy, or infants.</li><li>2. The donated food must be used exclusively for charitable purposes.</li><li>3. The food may not be transferred by the recipient organization in exchange for money, other property, or services.</li><li>4. Donated food must satisfy the requirements of the Federal Food, Drug, and Cosmetic Act (FDCA) at the time of donation and for the preceding 180 days. For food that did not exist for 180 days prior to donation, this requirement is satisfied if the food was in compliance with the FDCA for the period of its existence and at donation, and any similar property held by the donor during the 180 days prior to donation was also held in compliance with the FDCA.</li></ol> <p>More information can be found in the <a href="#">Federal Enhanced Tax Deduction for Food Donation: A Legal Guide</a>.</p>
<b>Are there limits?</b>	All businesses – including C-corporations, S-corporations, LLC's partnerships, sole proprietorships, and other business entities – can deduct up to 15% of their taxable income for food donations, as long as the food donation meets the eligibility requirements above.
<b>What paperwork do I need?</b>	Written statement from the receiving organization with the following information: <ul style="list-style-type: none"><li>• Description of donated food, with date of receipt.</li><li>• A statement that the food will be used in compliance with the requirements of IRC 170e3.</li><li>• A statement that the receiving organization is recognized as tax exempt as a 501c3.</li><li>• A statement that adequate records will be kept and made available to the IRS, if requested.</li></ul>

## Example

Let's walk through an example scenario: your business donated 500 pounds of onions to a local non-profit organization.

**1** First, we need to understand and identify some important values:

	Definition	Example Values
<b>Basis Value</b>	Cost the business paid to buy the food.	\$200
<b>Fair Market Value</b>	What the food item could have been sold for.	\$300
<b>Profit Margin</b>	Fair Market Value – Basis Value	\$100

**2** Next, let's calculate and compare potential tax deductions under the General Tax Deduction and Enhanced Tax Deduction scenarios. Remember, under the enhanced tax deduction situation, you are eligible to **deduct the lesser of the two calculation methods**:

### Enhanced Tax Deduction

Method 1: **Basis Value** x 2

$$\text{\$200} \times 2 = \$400$$

Method 2: **Basis Value** + (**Profit Margin**/2)

$$\text{\$200} + (\text{\$100}/2)$$

$$\text{\$200} + (\text{\$50}) = \text{\$250}$$

In this scenario, your business could qualify for the enhanced tax deduction of **\$250** for this donation of onions.

**3** Finally, use your tax deductions to determine what your overall tax savings are.

### Example:

**\$250** tax deduction @ 22% tax rate

$$\text{\$250} \times .22 = \text{\$55 tax savings}$$

**Note:** Tax deductions lower the total amount of your taxable income. To calculate your tax savings, which is the dollar amount that your business saved as a result of this deduction, multiply your tax deduction by your tax rate.

**Important:** It is the responsibility of the donating business to obtain the necessary donation receipts and documentation required to claim tax deductions. This document is a brief summary and does not seek to provide legal or tax advice. Seek counsel for tax filing.

Information provided credited to the Harvard Food Law and Policy Clinic and the Food Recovery Project at University of Arkansas School of Law's "[Federal Enhanced Tax Deduction for Food Donation: A Legal Guide](http://www.chlpi.org/wp-content/uploads/2013/12/Food-Donation-Fed-Tax-Guide-for-Pub-2.pdf)."

Please reference this important resource for more information on food businesses and food recovery organizations: <http://www.chlpi.org/wp-content/uploads/2013/12/Food-Donation-Fed-Tax-Guide-for-Pub-2.pdf>



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