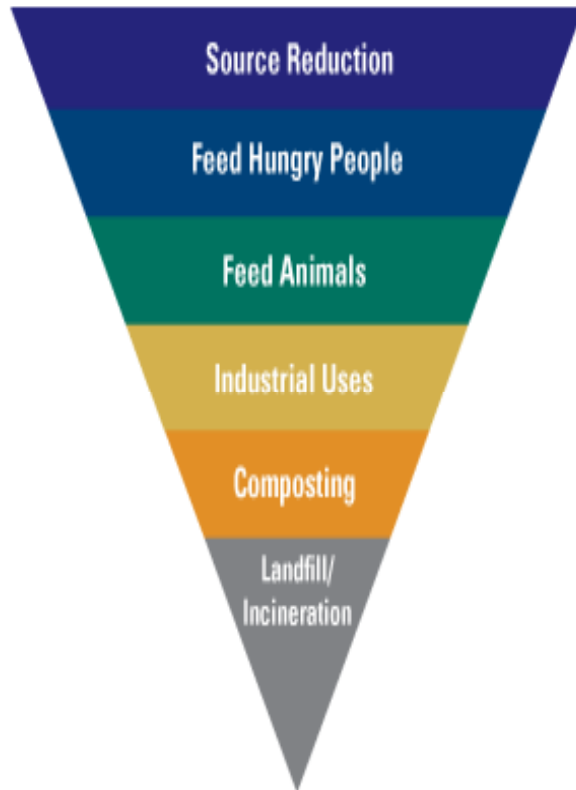

Enhanced Tax Deduction for Properly Donating Surplus Food

Overview by Food Donation Connection
800-831-8161



Reducing/Recovering Surplus Food

Food Waste Recovery Hierarchy



- Source Reduction – Reduce the volume of food waste generated
- **Feed People – Donate extra food to food banks, soup kitchens and shelters**
- Feed Animals – Provide food to farmers
- Industrial Uses – Provide fats for rendering and food discards for animal feed production
- Composting – Convert food scraps into a nutrient rich soil amendment

US EPA has developed a food waste recovery hierarchy to illustrate how productive use can be made of excess food. The hierarchy emphasizes practices that provide the greatest ecological, economic, and social benefits, with disposal as the last option.

Surplus Food: An Opportunity

Thousands of Pounds of Prepared Food Discarded

The Answer:

Harvest Program

**A socially responsible and simple alternative to
throwing away wholesome surplus food**

The Harvest Program

Links leftover wholesome food with hunger relief agencies that serve those who are in need

A program that benefits your Community and Company

- ❑ **Feeds those in need**
- ❑ **Earns opportunity for enhanced tax deduction**
- ❑ **Provides positive community publicity and appreciation**
- ❑ **Increases employee awareness of surplus and efficiency**

Enhanced Tax Deduction for Food Donations

C corporations

In 1976 Congress enacted Section 170(e)(3) to encourage donations by allowing **C corporations** to earn an **enhanced tax deduction** for donating selected surplus property, including food.

The enhanced deduction is equal to $\frac{1}{2}$ of the donated food's appreciated value, with the limitation that the total deduction cannot exceed twice the donated food's basis cost. The IRS may challenge the value of donated surplus food.

Enhanced Tax Deduction for

Non-C corporations

Katrina Emergency Tax Relief Act (KETRA) of 2005 temporarily allowed *any trade or business* to apply the enhanced deduction for contributions through December 31, 2005

Pension Protection Act of 2006 extended **KETRA** to December 31, 2007

Emergency Economic Stabilization Act of 2008 extended non-C corp. enhanced deduction to December 31, 2009



To Earn Enhanced Deduction

- Inventory donation is to an IRC 501(c)(3) social service organization (not a foundation) that serves infants, ill or needy.
- Donee must use the donation in a manner related to its exempt purpose and cannot sell the donation.
- Receipting meets specific tax law requirements.
- Donation must satisfy certain requirements of Food, Drug and Cosmetic Act (if applicable).

Enhanced Deduction Amount

Current Law

The enhanced deduction is equal to the lesser of:

- Basis plus one-half the item's appreciated value
or
- Two times cost

Fair Market Value may be challenged by the IRS.

Enhanced Deduction Example

Food Item

Menu Price	\$10.00
Food Cost and Direct Labor (Cost)	<u>3.25</u>
Gross Profit	6.75
One-half the Gross Profit ($\frac{1}{2}$ GP)	3.38
Total Deduction (Cost + $\frac{1}{2}$ GP)	6.50
(But not to exceed two times cost)	

Tax Savings Example

Example Benefit Food Item	Product Sold	Surplus Not Donated	Surplus Donated
<i>Sales revenue</i>	\$10.00	\$.00	\$.00
<i>Base cost (food & direct labor)</i>	3.25	3.25	3.25
<i>Gross margin / (loss)</i>	6.75	(3.25)	(3.25)
<i>Enhanced tax deduction</i>	--	--	(3.25)
<i>Total income/(deduction) for tax</i>	6.75	(3.25)	(6.50)
<i>Tax (assumes combined federal and state tax rate of 37%)</i>	(2.50)	1.20	2.40
<i>Gross margin/(loss) after tax</i>	\$4.25	\$(2.05)	\$(.85)

In this example, donating reduces after tax cost of surplus food by 59%.

Donation Records

Donation logs/receipts must be developed, recorded, maintained and stored by FDC or Donor.

- **FDC provides interim reports, detailing donated product and tax savings for each donor on a monthly/period basis.**
- **At year end FDC provides the donor with information to be included on IRS Form 8283 - Noncash Charitable Contributions.**

Key Steps to a Harvest Program

- 1. Determine Surplus Food Availability**
- 2. Develop Donation Procedures and Logs**
- 3. Conduct Harvest Program Test**
- 4. Implement Test Learning**
- 5. Analyze Enhanced Tax Deduction Impact**
- 6. Expand Harvest Program**

To Summarize...

- **FDC makes the Harvest Program its full-time job so the donation process doesn't become your company's full-time job.**
- **The Harvest Program delivers a potential tax savings while supporting those in need in your local community.**

Food Donation Connection

- **Vision - Let nothing be wasted.**
- **Mission - Create an efficient communication and reporting network that links available sources of surplus food to those in need through existing non-profit distribution channels.**
- **Strategy – Provide an economic benefit, corporate goodwill, and community involvement to contributing businesses who donate surplus food.**