



November 18, 2011

GIFT GRAIN NOT CASH

You know times are a little better in agriculture when gifting tips to save taxes are showing up in church bulletins, with colleges and other non-profit organizations. Nebraska farmers can lower their taxes by donating grain (or raised livestock) directly to their church or favorite charity and experience significant income tax and self-employment tax savings.

Many farmers do not receive an income tax benefit from charitable contributions made in cash because they do not itemize deductions for income tax purposes. Donating grain or livestock directly to the charity eliminates the need to claim a charitable contribution as an itemized deduction. Instead, the donated grain is put in the charity name and is thus excluded from farm income. A lower income means less revenue subject to income tax and self-employment tax.

For example, a farmer that uses the cash method for reporting for income tax purposes to the IRS donates 1,000 bushels of corn to a charitable organization. In most years, his taxable income puts him in the 25% bracket for Federal income tax purposes and in the 5% bracket for State income tax purposes. The farm's income is also subject to self-employment tax at 15%. Assuming the 1,000 bushels have a fair market value of \$6,000, the direct contribution of grain reduces his federal income tax liability by \$1,500, his state income tax liability by \$300, and his self-employment tax liability by about \$900 for a total tax savings of \$2,700. Thus, the \$6,000 gift to the church or charitable organization cost him \$3,300 because of the \$2,700 tax savings. The arrangement is a win-win scenario.

Gifts of grain to children can reduce taxes also. The sale of the gifted grain increases the child's income, but the child pays no self-employment tax on the gift of grain. Two possible savings can result: 1) the grain is taxed at the child's tax rate which is possibly lower and 2) no one pays the 15% self-employment tax on the grain sale. Be careful when gifting grain to children under 18. There are limitations on the amount of income that can be taxed at the child's tax rate. Amounts above this threshold will be taxed at the parent's rate which may be higher or the so-called "Kiddie" tax provision.

When to make the gift of grain or livestock is another key issue to talk to your tax advisor about. It may be better to gift 2011 grain in 2012 because of how expenses are handled on your tax form. Remember, you have to let the charity sell or decide what to do with your donated grain or livestock. If the farmer sells it and tells the elevator to "send the check" to the charity it is NOT a charitable gift. Now is a good time to talk to your tax advisor about these and other strategies as well.

LANDLORD/TENANT MEETING HANDOUTS

We had excellent attendance at the landlord/tenant meeting last Tuesday at Sokol Hall with 100 people participating. The Sokol staff did an outstanding job with the meal including the pork, kraut, dumplings and kolaches. A person from Shickley asked for a second kolache, he had never



eaten one before. I am guessing it will be the highest attended meeting of the eight being held in Nebraska. If you missed it, or have a hard time reading the small print on the powerpoint handouts, I posted the information with a link on the front page of our website at .

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