



## INVENTORY AND PROPERTY DONATIONS

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Congress has provided a special rule under the federal tax law to encourage corporations to donate certain kinds of property to charitable organizations to be used “for the care of the ill, the needy, or infants.” Clean the World can assist corporations in qualifying for this special tax benefit by distributing the donated products for the charitable purposes specified by the tax law.

### ***What tax benefit is provided?***

In general, a donor may deduct the full fair market value (FMV) of a gift to a public charity. However, the charitable contribution deduction allowed for donations of ordinary income property (property that, if sold, would not result in long-term capital gain) is generally limited to the lesser of the donor’s adjusted tax basis in the donated property or the FMV of the property. To encourage donations by corporations of supplies to charities that serve the ill, the needy or minor children, a special rule effectively doubles the maximum available tax benefit by providing a deduction of up to twice the donor’s basis in the property. This special tax benefit was enacted as Section 170(e)(3) of the Internal Revenue Code.

### ***What types of property must be donated to qualify for the special tax benefit under Section 170(e)(3)?***

The types of property eligible for the special tax rule include: (1) stock-in-trade or other property includible in a donor’s inventory; (2) property held for sale by the donor to customers in the ordinary course of its trade or business; (3) depreciable property used in the donor’s trade or business; and (4) real property used in the donor’s trade or business. Property subject to regulation under the Federal Food, Drug and Cosmetic Act is eligible for the special charitable deduction only if the items meet the requirements of that law on the date of transfer and for the preceding 180 days.

### ***How is the tax benefit calculated?***

The starting point in calculating the deduction for a donation of property that qualifies for this special rule is the property’s FMV on the date of contribution. Generally speaking, FMV is the price at which the property would sell in its customary market. The determination of FMV is specific to the facts and circumstances with respect to the particular product at the time contributed.

The special deduction for qualified contributions of property equals the lesser of two amounts:

- (a) the donor’s tax basis in the property, increased by one-half the difference between FMV and basis; and
- (b) two times the donor’s tax basis.

In calculating the deduction, a donor’s basis in the property must be determined under the donor’s method of accounting for income tax purposes. For inventory, the donor must use as basis the inventoriable carrying cost assigned to any similar item not included in closing inventory. To

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prevent the same amount from being deducted twice, the tax law requires the donor to decrease its cost of goods sold by the lesser of the FMV of the donated item or its tax basis.

Special rules apply with respect to donations of property when any gain on the sale of the property would be subject to “recapture” as ordinary income. In effect, these recapture amounts are not eligible for the charitable deduction.

**Example:** During 2008, a hotel donates soap to Clean the World with a FMV of \$10,000. The hotel’s basis in the property is \$2,000. The charitable deduction equals the lesser of: (1) \$6,000, computed by adding basis (\$2,000), plus \$4,000, which is one-half the difference between FMV (\$10,000) and basis (\$2,000); and (2) \$4,000 (two times basis).

### ***Can any donor qualify for the special tax rule?***

The special deduction for qualified contributions of property is available to any corporation other than an electing small business corporation (generally known as an “S” corporation).

### ***Can any charity receive the donated property?***

In general, to qualify for the special deduction, a gift must be made to a non-profit organization operating under section 501(c)(3) of the Internal Revenue Code. Clean the World currently operates under the fiscal sponsorship of [Central Care Mission of Florida, Inc.](#), a Florida corporation operating under section 501(c)(3) of the Internal Revenue Code.

### ***Are there restrictions on the use of the donated property?***

Under the regulations, a wide range of uses of the donated property is permitted. For example, the donated property may be used to assist individuals who are physically or mentally ill, handicapped, incapable of self-care due to old age, or homeless; victims of disasters, crimes of violence, or spousal abuse; and immigrants with language, cultural, or financial difficulties. Qualified charitable purposes also include providing for physical, mental and emotional needs of minor children. An “intermediary” charitable donee (such as Clean the World) may distribute the donated property to other qualified charities that in turn use the items for the care of the ill, needy, or minor children. The special charitable deduction under Section 170(e)(3) is not available if the donee charity sells the donated items.

### ***What IRS Form should a donor file?***

A corporation generally must file IRS Form 8283 (*Noncash Charitable Contributions*), with its tax return if the amount it claims as a deduction for all noncash gifts is over \$5,000. A corporation that is a closely held corporation, a personal service corporation or an “S” corporation must file Form 8283 with its tax return if the amount it claims as a deduction for all noncash gifts is over \$500. A written “qualified appraisal” is not required for donations of property by “C” corporations (including closely held corporations and personal service corporations) that qualify for the special deduction under Section 170(e)(3). A qualified appraisal is required for a donation of property by an “S” corporation if the deduction claimed exceeds \$5,000. The charity receiving the property must complete the donee acknowledgment portion of Form 8283 for noncash gifts exceeding \$5,000. Clean the World can assist donors in preparing Forms 8283.

### ***What other documentation is needed?***

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A donor must obtain from the donee charity a written statement representing that the donee's use and disposition of the property will meet the requirements for the special charitable deduction (*i.e.*, will be used by the charity for the care of the ill, the needy or minor children). Clean the World will furnish this statement to the donor, which should maintain the statement with its tax records. In addition, any donor making a contribution (in cash or property) of \$250 or more must obtain, before filing its tax return, a written acknowledgment of the donation from the donee charity meeting certain requirements. Clean the World will furnish the required written acknowledgment to each donor. The donor should maintain this written acknowledgment with its tax records.

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