



Donation of Hay, a Charitable Tax Deduction?

When drought causes shortages of hay and feed supplies, farmers, ranchers and rural neighbors with adequate supplies often donate hay to areas that need feed and hay. Questions arise whether these donations qualify for an income tax deduction. In most circumstances the farmer/rancher donor of hay *does not* have a charitable deduction.

Whether a charitable contribution deduction is available depends on whether the donor has produced the hay or feed in the course of his or her farming or ranching business or activity. Some individuals involved in agricultural activities do not qualify as farmers or ranchers, for tax purposes, because their non-farm income is high. However, these individuals may still file a Schedule F (Form 1040) when preparing their tax returns; while others may be engaged in a hobby activity. If the donor is not considered to have a business activity (under IRS rules), a deduction generally is allowed. The allowance of a charitable contribution deduction is based upon the facts and circumstances specific to the individual. Thus, consultation with a knowledgeable tax professional is suggested for proper application of tax rules to gain any benefits.

Tax Advantage for the Farmer or Rancher

If a producer wishes to make a charitable donation of hay, even with a zero tax basis (defined below), the expenses of production can still be deducted against business income. Thus, income taxes and self-employment taxes are reduced as a result of lower income on the business schedule. However, the producer may not “double dip” and claim a charitable contribution deduction on Schedule A (Form 1040) for reasons discussed below. Good records are helpful in substantiating business income and expenses and charitable contribution deductions.

Charitable Contribution Deduction is Limited to Tax Basis

Donation of hay and feed is limited to the tax basis in the hay or feed either for the farmer/rancher or for other taxpayers with an agricultural activity or hobbyists. This position is taken from the Internal Revenue Code (IRC) § 170(e)(1)(A).

Hay Produced in an Agricultural Business or Agricultural Activity

Most farmers and ranchers use the cash method of accounting; expenses are deducted on Schedule F (Form 1040) when incurred. Likewise, receipts are reported when received. Since the expenses are deducted in the course of business or activity, the tax basis of donated hay is zero. Because the tax basis is zero, there is nothing to create a charitable contribution based on this donated hay.

Hay Produced as a Hobby (by definition not a trade or business)

Hay produced in a hobby may generate a charitable contribution deduction limited to the cost incurred in producing the hay because it is not deducted as a business expense. Generally that cost includes: fertilizer (if any), baling expenses, stacking and transportation charges, etc. that are paid to custom crews. If the donor bales the hay, then the costs are: the fertilizer (if any), fuel, twine, etc. and casual labor that might be hired. The individual cannot include any value for his or her time. The total of these costs then becomes the tax basis for the charitable contribution taken as an itemized deduction on Schedule A (Form 1040).

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