Can a Business Take a Tax Deduction for Donating Excess or Obsolete Inventory to Charity?

Getting rid of your excess or obsolete inventory can help you free up needed warehouse space, avoid hefty storage fees, focus on the products that do sell and avoid having to liquidate items. You may be able to donate some inventory to charities to receive a valuable tax deduction if your donation meets certain requirements.

**Excess Inventory**
The Internal Revenue Service allows businesses to donate excess inventory to charity and provides incentives to encourage this action. However, a business cannot donate inventory that is in quantities above those needed for the normal course of business. The incentive is applicable if the charitable organization can use the item to meet the stated mission of the organization. Items that can be donated are those items that are normally sold during business, such as clothing, food or furniture. You cannot donate items that will personally benefit you, such as if you provide items for the room in a retirement home that you expect to occupy.

**Obsolete Inventory**
Obsolete inventory may exist if items are no longer in season, have expired or are outdated for the purposes of your business. Items may also become obsolete if your business needs change. For your obsolete inventory to qualify for a tax deduction, it must still retain some value and must be able to be used by the charitable organization. Forklifts, conveyor systems and factory equipment are a few examples of items for which you can receive a tax deduction. However, the donation of a typewriter to a charitable organization that will not use it to create written communication will not qualify for the tax deduction.

**Charitable Organizations**
Giving your excess or obsolete inventory to any charity may not qualify you for the tax deduction. Only charitable organizations that are listed as 501(c)(3) organizations will qualify you for the tax deduction. Schools, hospitals and orphanages are some examples of these types of organizations. If you're in doubt, you can ask the charity about its status.

**Amount of Deduction**
For sole proprietorships, S corporations and partnerships, the tax incentive is a straight cost deduction. This means that if the fair market value of your item is $100, your tax deduction will be $100. If your business operates as a C corporation, you may be able to get a larger tax deduction. The larger deduction is available if the charity provides you with a written statement indicating that your donation meets several requirements. For example, the charity must use the property in the intended manner; must use it for caring for the ill, the financially needy or infants; and cannot sell the property.

**How to Claim the Deduction**
Request a receipt for your charitable contribution. Schedule A on Form 1040 should be completed to record the transaction for partnerships, S-corporations and LLCs. A sole proprietor should list the information as an itemized deduction on his tax return. You will also need to complete Section A of Form 8283 if any one item has a value of $500 or more. Submit these forms with the rest of your tax return.
Tax Deduction for Donating Consulting Services to Non-Profit Organization
As a small business owner, you may be able to reduce the tax owed on profits by taking a charitable contribution deduction for donations you make to non-profit organizations. For consulting businesses that donate services, however, the Internal Revenue Service limits the types of costs that are treated as deductible donations. And in addition to these limitations, the value of your deductible donation may be reduced when non-profit organizations provide you with any benefits in exchange for the free consulting services.

General Rules
There are two essential criteria to claiming a deduction for charitable donations. First, only the fair market value of cash and property donations are eligible for the deduction. The second criteria requires that the donation be made to non-profits that are considered “qualified organizations.” Qualified organizations only cover non-profits that are exempt from federal income tax. Other than some religious and government institutions -- which are automatically tax-exempt -- non-profits must have their applications approved by the IRS to obtain tax-exempt status.

Donating Consulting Services
Regardless of whether you charge clients a fixed hourly rate, you can’t take a charitable deduction based on the number of hours you spend providing consulting services to a non-profit. In fact, the IRS never allows businesses to include the value of time or the income lost when calculating a charitable donation deduction that relates to the provision of services. You can, however, deduct other costs incurred that aren’t reimbursed, are directly connected to the consulting services and for costs the business wouldn’t have incurred but for the donation of consulting services. Typically, deductible costs cover car expenses, such as gas, oil, tolls and parking fees. And if your consultation requires travel away from home, hotel and transportation charges can be deducted as a charitable contribution. Not deductible, for example, is a portion of the payments made to lease office space since the business incurs the expense regardless of whether the consulting services are donated or not.

Reduction for Benefits
If you, or your business, receive some benefit from a non-profit organization for providing consulting services, the IRS requires you to reduce your charitable deduction by its value. For example, if the recipient of the consulting services is a university, and in appreciation of your generosity it offers you the opportunity to take classes at a reduced tuition rate -- the difference between the tuition the university charges the public and the reduced rate it offers you represents the benefit’s value that your deduction should be reduced by.

Relevant Tax Forms
How you report the charitable deduction solely depends on the type of business entity you are. If you operate as a sole proprietor, a shareholder of an S corporation or a partner of a partnership, charitable donation deductions are itemized on Schedule A and attached to your 1040. Corporations, on the other hand, report charitable donations on Form 1120, the corporate tax return. Lastly, businesses that operate through a limited liability company, or LLC, will report charitable deductions in conformity with its tax designation.

Others Links that may help you in Tax-Deductions.
Tax Deduction for Charity Donations
Contributions to churches and non-profits are tax-deductible
Donations to charity are tax deductible expenses. These donations can reduce your taxable income and lower your tax bill. Not everyone will be able to deduct their charitable contributions, however. You will need to itemize your tax deductions to claim any charity.
"You may deduct charitable contributions of money or property made to qualified organizations if you itemize your deductions." (IRS Publication 78)

Where to Claim the Charity Deduction
You claim your tax deduction on Form 1040, Schedule A (PDF)
Rules for Claiming the Charitable Contribution Deduction
Your gift of cash or property must meet certain criteria to be tax-deductible.

You must actually donate cash or property. A pledge or promise to donate is not deductible until you actually pay.

You must contribute to a qualified tax-exempt organization. Charities will let you know if they have received their 501(c)(3) tax-exempt status. Some organizations are not required to obtain 501(c)(3) status from the IRS. These include churches and other religious organizations.

You must be able to itemize. Giving to charity is a great tax planning strategy, but it only works for people who are eligible to itemize their deductions.

You must meet record keeping requirements. This includes saving canceled checks, acknowledgment letters from the charity, and appraisals for donated property.

Keeping Records of Your Charity
Taxpayers are required to keep excellent records of their charitable contributions. Under the Pension Protection Act, you must keep written records of all cash donations. Your records must indicate the name of the charitable organization, the date of your contribution, and the amount your contribution.

Canceled checks work well as a written record, since the name of the charity, the date of the gift, and the amount of the gift will all be recorded on the check. Bank statements showing a gift paid by debit card and credit card statements showing a gift paid by credit card are also contain these same elements needed for your records.

Charitable organizations will often provide donors with a written letter acknowledging the gift or with a receipt for the donation. These acknowledgment letters should also be kept with your tax records. If a tax return is audited, the IRS can disallow charitable donations of $250 or more
if you don't have the written acknowledgement from the charity that documents your gift. The IRS advises, "If you made more than one contribution of $250 or more, you must have either a separate acknowledgment for each or one acknowledgment that lists each contribution and the date of each contribution and shows your total contributions" (from Publication 526).

Non-Cash Contributions of Property Contributions of property (other than cash) are subject to strict record keeping and substantiation rules. You must be able to substantiate the fair market value of the goods or property you donated, plus keep any written acknowledgments you receive from the charity.

If you donate more than $500 worth of Non-Cash Contributions, fill out Form 8283 and include this with your tax return.

If you contribute a car, truck, boat, airplane, or other vehicle, and the vehicle is worth more than $500, you must receive a written acknowledgement from the non-profit before you can claim a tax deduction.

Tips for Donating Non-Cash Items

Make a list of the items you're giving away. You'll need this detail for the Form 8283.

Note the condition of each item. The IRS will allow a deduction for any item that's in good condition or better.

Arrive at a value for each item. For common items such as clothing, small appliances and other household goods, you can use the valuation guides from the Salvation Army or Goodwill. If the item you're donating is brand new, keep the price tag or store receipt to prove the item's value.

The donation works for food and groceries too. If you donate groceries to a charity, you can deduct the cost of the donated items. Just be sure to get a written acknowledge for your donation, and keep your grocery receipt to prove the price of items you donated.

Consider taking a picture of your donations. In the rare event you are audited, the IRS may distrust your written documentation. Having a picture handy of what you donated may be useful, especially if you are donating lots of items.

Obtain a written receipt for your donation. This proves that a donation was actually made. But you'll also need to fill out the receipt when dropping off your items to list what you're donating and the value of the donation, so having this ready ahead of time will be handy.

If you're donating property worth more than $5,000, obtain a written appraisal to value the property before donating it.
Your charitable contribution tax deduction may be limited. There are limits specific to charitable contributions, and there are general limits on itemized deductions.

**50%, 30%, and 20% Limits on Charitable Contributions**
Generally, you can deduct cash contributions in full up to 50% of your adjusted gross income.
Generally, you can deduct property contributions in full up to 30% of your adjusted gross income.

Generally, you can deduct contributions of appreciated capital gains assets in full up to 20% of your adjusted gross income. Charitable contributions more than these limits can be carried over to the following tax year. The excess contributions can be carried over for a maximum of five years.

**Not Tax Deductible**
Contributions are not tax deductible if given to any of the following:
Political parties, political campaigns, or political action committees.
Contributions given to individual people.
Fees or dues paid to professional associations.
Contributions to labor unions, chambers of commerce, or business associations.

Contributions to for-profit schools and hospitals.
Contributions to foreign governments.
Fines or penalties paid to local or state governments.
The value of your time for services rendered to a non-profit.

**IRS Resources:**
Publication 526, Charitable Contributions
Instructions for Form 8283, Noncash Charitable Contributions
Form 8283, Noncash Charitable Contributions (PDF)
Instructions for Schedule A
Schedule A (PDF)
Form 1040 (PDF)

**Tax Law Resources About Charitable Donations:**
Internal Revenue Code section 170
Treasury Regulations sections 1.170-0 through 1.170A-14
You should keep all documents regarding donations to charity. This includes both cash and non-cash contributions. Under the Pension Protection Act, taxpayers are required have receipts from the charity, a canceled check, or credit card statement to prove their donation. No tax deduction will be allowed if the taxpayer cannot provide any supporting documentation. You will not need to mail in the receipts with their tax return.

Instead, keep receipts and other documentation with your copy of the tax return in the event of an IRS audit.
What Records You Need to Keep
For cash contributions under $250, be sure to keep the following records: Canceled check, bank statement, or credit card statement showing the amount paid, date paid, and the name of the charity to which you gave money;

Written receipts or acknowledgment letters from the charity showing the date and the amount of your contribution; and Any other documentation or records that would establish the date and the amount you contributed.

For cash contributions of $250 or more, you must have a written acknowledgment from the charity before you can deduct the contribution on your tax return. Be sure to keep all acknowledgment letters from charities with your tax records. Acknowledgment letters must state the following: Amount of cash you donated, Whether the charity provided any goods or services in exchange for your donation, and Description and good faith estimate of the value of goods or services that the charity provided to you.

Keeping Records of Non-Cash Contributions
For donations of property, you must keep records to establish what you donated, its condition, its fair market value, and the amount of your tax deduction. Your records must indicate:

Name and address of the charity,
Date and location of the contribution,
Description of the property donated,
Fair market value of the property and how you figured the value, and
Amount claimed as a tax deduction.

For non-cash contributions worth $250 to $500, you will also need a written acknowledgment letter from the charity to substantiate your deduction. For non-cash contributions worth $500 to $5,000, you will need to keep records that establish:

How you acquired the property (such as purchase or inheritance)
Date you acquired the property Your cost or adjusted basis in the property
For non-cash contributions of $5,000 or more, you will need a written appraisal from a qualified appraiser to substantiate the value of your deduction.

Donated items, such as cars, clothing, and household goods, must be in good condition. "The new law does not define 'good condition,'" according to a tax law briefing from CCH. No tax deduction is allowed for items in less than good condition. You should keep a detailed list of the non-cash goods you donated to charity, along with a description of their condition.