

# Legal Fact Sheet

## Ohio Food Donation: Tax Incentives

Created by the Harvard Law School Food Law and Policy Clinic, June 2023

Federal tax incentives provide important financial incentives that make food donation more cost-effective and economically beneficial. These tax incentives have been extraordinarily successful in motivating food donation. In the past, federal tax incentives for food donations were limited to C-corporations.<sup>1</sup> Tax incentives for donations were temporarily expanded to cover more businesses in 2005, and Congress made this expansion permanent in 2015,<sup>2</sup> providing all businesses with added incentive to increase food donations and prevent food waste. At the federal level, tax incentives are available in the form of general or enhanced deductions, each of which are discussed in this fact sheet.

In addition to the federal tax incentives, a number of states have enacted state-level tax incentives. As of January 2023, Ohio does not provide a state-level tax credit for food donations. However, Ohio does conform to the federal tax law. This allows businesses to claim the federal tax deductions to reduce the taxable income on which Ohio state income taxes will be assessed.

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### Federal Tax Incentives

#### How are the tax incentives calculated?

**General (non-enhanced) tax deduction:** Businesses that donate inventory may claim a tax deduction in the amount of the property's basis,<sup>3</sup> which is usually the value of the property's cost to the business and is often lower than the fair market value (the value at which goods can be sold). Businesses other than C-corporations—including S-corporations,<sup>4</sup> sole proprietorships,<sup>5</sup> and some LLCs<sup>6</sup>—cannot deduct more than either 30% or 50% of the business' total taxable

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<sup>1</sup> I.R.C. § 170(e)(3)(C) (2017).

<sup>2</sup> I.R.C. § 170(e)(3)(C) (2017); Protecting Americans Against Tax Hikes (PATH) Act of 2015, H.R. 2029, 114<sup>th</sup> Cong. § 1139(a) (2015).

<sup>3</sup> I.R.C. § 170(e)(1) (2017); 26 C.F.R. § 1.170A-4(a)(1) (2018); *Charitable Contributions: For Use in Preparing 2017 Tax Returns*, I.R.S., DEP'T OF THE TREASURY 11, (Jan. 24, 2018), <http://www.irs.gov/pub/irs-pdf/p526.pdf> (noting the amount of the deduction is the fair market value minus the amount of income gained had the product been sold at fair market value).

<sup>4</sup> I.R.C. § 170(b)(1)(B)(i) (2017); I.R.C. § 1363(b) (2017).

<sup>5</sup> I.R.C. § 170(b)(1)(B)(i) (2017); *Sole Proprietorships*, I.R.S., <https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Sole-Proprietorships> (last visited Oct. 29, 2018).

<sup>6</sup> I.R.C. § 170(b)(1)(B)(i) (2017); *Single Member Limited Liability Companies*, I.R.S., <https://www.irs.gov/businesses/small-businesses-self-employed/single-member-limited-liability-companies> (last visited Jan. 30, 2023) (explaining that whether an LLC will be treated as an individual for tax purposes—and hence be subject to the 30% total charitable contribution cap—depends on the number of members in the LLC).

income each year, depending on the type of organization to which the business is donating.<sup>7</sup> C-corporations generally cannot deduct more than 10% of their taxable income each year.<sup>8</sup>

**Enhanced tax deduction:** The enhanced tax deduction provides an extra incentive for donation by allowing the donating business to deduct the lesser of (a) twice the basis value of the donated food or (b) the basis value of the donated food plus one-half of the food's expected profit margin (if the food were to be sold at fair market value).<sup>9</sup> Under the enhanced deduction, all businesses may deduct up to 15% of their taxable income for food donations.<sup>10</sup>

*Example: A grocery store donates potatoes with a fair market value of \$100. The basis value of these potatoes was \$30. The expected profit margin is the fair market value minus the basis value (\$100 - \$30), which is \$70. Under the enhanced deduction, the grocery store is eligible to deduct the smaller of:*

*(a) Basis Value x 2 = \$30 x 2 = \$60, or (b) Basis Value + (expected profit margin / 2) = \$30 + (\$70 / 2) = \$65*

*The enhanced deduction would be \$60, which is substantially higher than the general deduction (the \$30 basis value).*

Businesses that do not account for inventories and are not required to capitalize indirect costs will have the option to calculate the basis value at 25% of the products' fair market value.<sup>11</sup> Businesses also have the option to calculate the fair market value of certain products—i.e., those that cannot be sold because of failure to meet internal standards, lack of a market, or similar reasons—by using the price of the same or substantially similar, saleable food items.<sup>12</sup>

### **How can a donating business know if they are eligible for a tax deduction?**

**General tax deduction requirements:** In order for a charitable contribution to qualify for a federal tax deduction, the donation must be used for charitable purposes and given to a qualified organization as laid out under section 170 of the Internal Revenue Code (IRC).<sup>13</sup>

**Enhanced tax deduction requirements:** In order to qualify for the enhanced tax deduction, a business must donate to a recipient organization that meets several criteria. First, the recipient must be a qualified 501(c)(3) not-for-profit as defined by the IRC.<sup>14</sup> Additionally, the donor and recipient must meet the following requirements:<sup>15</sup>

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<sup>7</sup> I.R.C. § 170(b)(1)(A) (2017).

<sup>8</sup> I.R.C. § 170(b)(2)(A) (2017).

<sup>9</sup> I.R.C. § 170(e)(3)(B) (2017); 26 C.F.R. § 1.170A-4A(b)(4) (2017).

<sup>10</sup> I.R.C. § 170(e)(3)(C)(ii) (2017).

<sup>11</sup> I.R.C. § 170(e)(3)(C)(iv) (2017).

<sup>12</sup> I.R.C. § 170(e)(3)(C)(v) (2017).

<sup>13</sup> I.R.C. § 170(b),(c), (e)(3)(c) (2017).

<sup>14</sup> I.R.C. § 170(e)(3)(A) (2017).

<sup>15</sup> I.R.C. § 170(e)(3)(A) (2017); 26 C.F.R. § 1.170A-4A(b) (2019).

(A) The recipient must use the donated food in a manner consistent with the purpose constituting that organization’s exempt status under IRC 501(c)(3), which means that the donated food must be used exclusively for charitable purposes;

(B) The food must be used for the care of the ill, needy, or infants;

(C) The food may not be transferred by the recipient organization in exchange for money, other property, or services; however, the recipient organization may charge another organization a nominal amount for “administrative, warehousing, or other similar costs.”

*Example: If a business donates food to a food bank (the recipient organization), the food bank may not charge a soup kitchen for the donated food, and the soup kitchen may not charge the individuals eating at the soup kitchen. The food bank can, however, charge the soup kitchen a nominal fee for reimbursement of the costs of storing the food in a warehouse.*

(D) The donating business must receive a written statement from the recipient organization. The statement must describe the contributed property and represent that the property will be used in compliance with the requirements outlined above; and

(E) The donated property must satisfy the requirements of the Federal Food, Drug, and Cosmetic Act (FDCA) at the time of donation and for the preceding 180 days. For food that did not exist for 180 days prior to donation, this requirement is satisfied if the food was in compliance with the FDCA for the period of its existence and at donation, and any similar property held by the donor during the 180 days prior to donation was also held in compliance with the FDCA.

A majority of states with corporate income tax conform to the Internal Revenue Code (I.R.C) calculation of corporate income tax in lines 1 through 28 of IRS Form 1120.<sup>16</sup> Some states must pass new legislation in order to conform with changes in the Internal Revenue Code while others employ what is called rolling conformity, whereby the states automatically implement federal tax changes as they are enacted. Ohio is a “static” conformity state—it adopts the federal tax code as it exists at a certain point in time and must update its tax laws to conform to any changes in the I.R.C. at later dates.<sup>17</sup> In February of 2022, Ohio amended its state code to reflect changes to the I.R.C as of March 31, 2021.<sup>18</sup> In states with I.R.C conformity, businesses are eligible to use federal tax deductions to calculate their taxable state income. Businesses claim the charitable contribution deduction on Line 19 of IRS Form 1120.<sup>19</sup> The income amount used for the calculation of state taxes is already reduced by the amount of federal deductions, including charitable contributions, when it is transferred from Line 28 or Line 30 of IRS Form 1120 to state corporate income tax return forms. Because Ohio conforms to the I.R.C with respect to

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<sup>16</sup> See Toward a State of Conformity: State Tax Codes a Year After Federal Tax Reform, TAX FOUNDATION (Jan. 28, 2019), <https://taxfoundation.org/state-conformity-one-year-after-tcja/>.

<sup>17</sup> See Toward a State of Conformity: State Tax Codes a Year After Federal Tax Reform, TAX FOUNDATION (Jan. 28, 2019), <https://taxfoundation.org/state-conformity-one-year-after-tcja/>.

<sup>18</sup> [https://tax.ohio.gov/static/ohio\\_individual/ty%202021%20conformity%20statement.pdf](https://tax.ohio.gov/static/ohio_individual/ty%202021%20conformity%20statement.pdf)

<sup>19</sup> See I.R.S FORM 1120, U.S. CORPORATION INCOME TAX RETURN (2017).

charitable deductions, businesses in the state benefit from the federal deductions for charitable food donations, which reduce their state income tax liability.

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## Ohio Tax Incentives

More than a dozen states currently offer state level tax incentives specifically for food donations.<sup>20</sup> As of January 2023, Ohio does not provide a state-level tax credit for food donations, but it does conform to the I.R.C. so that businesses may use federal food donation deductions in the calculation of their state income taxes.<sup>21</sup>

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### Conclusion

As of January 2023, Ohio does not provide a state-level tax credit for food donations. However, Ohio has adopted the Internal Revenue Code provisions covering food donation deductions, so eligible businesses may use the deductions to reduce their taxable income for the purpose of Ohio state income taxes.

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<sup>20</sup> See e.g., Arizona, see Ariz. Rev. Stat. Ann. §§ 42-5074, 43-1025 (West 2016); California, see Cal. Rev. & Tax Code §§ 17053.12, 17053.88 (West 2016); Colorado, see Colo. Rev. Stat. Ann. § 39-22-301 (West 2016); Iowa, see Iowa Code §§ 190B.101–190B.106, 422.33(30) (West 2016); Maryland, see Md. Tax-Gen. Code Ann. § 10-745 (West 2018); Missouri, see Mo. Rev. Stat. § 135.647 (West 2016); New York, see N.Y. Tax § 210-B(52) (McKinney 2018); Oregon, see Or. Rev. Stat. §§ 315.154, 315.156 (West 2016); South Carolina, see S.C. Code Ann. § 12-6-3750 (West 2016); Virginia, see Va. Code Ann. § 58.1-439.12:12 (West 2016); and West Virginia, see W. Va. Code § 11-13DD (West 2017).

<sup>21</sup> Ohio Rev. Stat § 5747.01.