

Tax Benefits for Food Donations: A Guide for Businesses

Maximizing Your Deductions While Fighting Hunger

1. Overview of Tax Incentives

The **U.S. federal tax code** (IRS Section 170(e)(3)) allows businesses to claim **enhanced deductions** for qualifying food donations, making it financially beneficial to donate rather than discard surplus food.

Key Benefits

- ✓ **Higher deduction limits** than standard write-offs
 - ✓ **Applies to C-corps, S-corps, LLCs, and sole proprietors**
 - ✓ **Covers perishable and non-perishable food**
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2. Eligibility Requirements

Qualifying Donors

- Restaurants, grocery stores, farms
- Food manufacturers & distributors
- Caterers & hospitality businesses

Qualifying Recipients

- 501(c)(3) nonprofits (food banks, shelters, etc.)
- Religious organizations with food programs
- Government agencies serving low-income populations

Qualifying Food

- Must be **"apparently wholesome"** (safe to eat but unsellable)
- Includes:
 - Perishables (produce, dairy, meat)
 - Packaged goods (near or past "sell-by" but not "use-by" dates)

- Prepared foods (from licensed kitchens)

3. Calculating Your Deduction

General Rule

You can deduct the **lesser of**:

1. **Twice your cost basis** (2x what you paid for the food), **or**
2. **Fair market value** (what the food would sell for)

Example:

- A restaurant donates R9000 worth of surplus ingredients that cost R3600 to purchase.
- Deduction = 2x R3600 = **R7200** (since this is less than the R9000 FMV).

Special Rule for C-Corporations

C-corps can deduct up to **15% of taxable income** for food donations.

4. Required Documentation

To claim the deduction, keep:

- **Receipts** showing original food cost
- **Written acknowledgment** from the nonprofit including:
 - Organization's name/EIN
 - Description/quantity of donated food
 - Statement that no goods/services were exchanged
- **Fair market value** records (e.g., price lists, invoices)

5. State-Level Incentives

Many states offer **additional credits or deductions**:

- **Johannesburg**: 10% tax credit for certain donations
- **Cape town**: Up to R93,000 extra deduction

- **New York:** Sales tax exemptions for donated food
Check your state's revenue department website for details.
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6. Avoiding Common Pitfalls

- ✗ **Don't claim donations to individuals** (only nonprofits qualify).
 - ✗ **Don't deduct food that was already written off as a loss.**
 - ✗ **Don't overvalue donations** (use conservative FMV estimates).
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7. Frequently Asked Questions

Q: Can I donate expired food?

A: Yes, if it's still "apparently wholesome" (e.g., dry goods past "best by" dates).

Q: Does this apply to homemade food?

A: Only if prepared in a **licensed kitchen** (home cooks don't qualify).

Q: How do I value prepared meals?

A: Use ingredient cost (not menu price) for deductions.