

Announcement 2005-84

Charitable Giving Incentives

This announcement is to advise partnerships and S corporations with fiscal tax years beginning in 2004 and ending after August 27, 2005, of two act sections in the Katrina Emergency Tax Relief Act of 2005 that may benefit their partners and shareholders. This announcement is intended to supplement the 2004 instructions for Forms 1065 and 1120-S.

Temporary Suspension of Limitations on Certain Cash Contributions (Act Section 301)

Partnerships

Qualified contributions. Cash contributions made by a partnership during the period beginning on August 28, 2005, and ending on December 31, 2005, to charitable organizations described in Internal Revenue Code (IRC) section 170(b)(1)(A) (except for organizations described in IRC section 509(a)(3)) qualify for suspension of the following limitations.

Individual partners. For individual partners that elect this provision, their distributive shares of these qualified contributions are not limited by either:

- The 50% adjusted gross income limitation, or
- The limitation on overall itemized deductions.

An individual partner's deduction for qualified cash contributions is allowed to the extent the individual's adjusted gross income (computed without regard to any net operating loss carryback) exceeds the deduction for other charitable contributions. See publication 526, *Charitable Contributions*, for information on adjusted gross income limitations on deductions for charitable contributions.

Corporate partners. For corporate partners that elect this provision, their distributive shares of these qualified contributions are not subject to the 10% taxable income limitation. A corporate partner's deduction for qualified cash contributions is allowed to the extent the corporation's taxable income (as computed in IRC section 170(b)(2)) exceeds the deduction for other charitable contributions. Qualified contributions passed through to corporate partners are limited to contributions for relief efforts related to Hurricane Katrina.

S Corporations

Rules similar to those for partnerships discussed above also apply to S corporations and their shareholders.

Reporting on Schedule K-1 for partnerships and S corporations. If a partnership or S corporation has made any cash contributions that qualify for these provisions, it must attach a statement to the Schedule K-1 (for the 2004-2005 fiscal tax year) separately reporting the partner's or shareholder's share of the qualified contributions. Indicate on

the attached statement that the individual partner should report these contributions on line 15b of Schedule A (Form 1040) if the partner makes this election. For partnerships, identify this attached statement in box 13 of Schedule K-1 (Form 1065) using code T (other deductions). For S corporations, identify this attached statement in box 12 of Schedule K-1 (Form 1120-S) using code P (other deductions).

Charitable Contributions of Food Inventory (Act section 305)

The Katrina Emergency Tax Relief Act of 2005 temporarily extended the enhanced deduction for certain charitable contributions of food inventory under IRC section 170(e)(3) to contributions by partnerships and S corporations. The deduction is limited to donations of food inventory to certain charitable organizations for the care of the ill, needy, and infants during the period beginning on August 28, 2005, and ending on December 31, 2005. The food must meet all the quality and labeling standards imposed by federal, state, and local laws and regulations.

Amount of Contribution. The amount of the charitable contribution for donated food inventory is the **lesser** of **(a)** the basis of the donated food plus one-half of the appreciation (gain if the donated food were sold at fair market value on the date of the gift) or **(b)** twice the amount of basis of the donated food.

10% net income limitation. The deduction for contributions of food inventory may not exceed 10% of the partner's or shareholder's aggregate net income for the tax year from all businesses from which food inventory contributions were made, including the partner's or shareholder's share of net income from the partnerships or S corporations that made the food inventory contributions.

Reporting on Schedule K-1 for partnerships and S corporations. If a partnership or S corporation has any qualified food inventory contributions, it must attach to Schedule K-1 (for the 2004-2005 fiscal tax year) a statement providing the following information.

- The partner's and shareholder's share of the amount of the charitable contribution (see *Amount of contribution* above) for qualified food inventory that was donated to charitable organizations during the period beginning on August 28, 2005, and ending on December 31, 2005.
- The partner's and shareholder's share of the total net income for the tax year from the partnership's or S corporation's business activities from which the contributions of food inventory were made.

For partnerships, identify this attached statement in box 13 of Schedule K-1 (Form 1065) using code T (other deductions). For S corporations, identify this attached statement in box 12 of Schedule K-1 (Form 1120-S) using code P (other deductions).