

Corporate contributions of inventory for the care of the needy, ill, or infants

There are special rules that can give your corporation larger charitable deductions for certain contributions of inventory.

In general, when inventory is contributed to charity, the deduction is based on the cost (basis) the corporation had in the inventory. Thus, if the donated inventory cost \$10,000, the deduction will be limited to \$10,000 even if the value of the inventory is higher.

However, under special rules applicable to regular ("C") corporations, if the inventory is donated to an organization that will use it to aid the ill, needy, or infants, the deduction will be increased by half of the difference between basis and value (with an upper limit of twice the basis). (Similar rules apply to qualifying book donations by C corporations to public schools, and to donations of food by any trade or business of the taxpayer.)

For example, if the donated inventory's basis is \$10,000 and its value is \$16,000, the deduction will be \$13,000: the \$10,000 basis, plus half of the \$6,000 excess of value over basis. But if the basis is only \$4,000 and the value is \$16,000, the deduction cannot exceed \$8,000 (the \$4,000 basis X 2) under these rules.

There's no dollar limit on how much inventory you can give away under these rules, but the regular overall deduction limit for corporations still applies. So the total charitable deduction for the year cannot exceed 10% of corporate taxable income (as determined with several modifications for these purposes). Contributions in excess of the 10% limit are carried forward and may be used during the next five years (subject to the 10% taxable income limitation each year).

To take advantage of the special rules for inventory contributions for the ill, needy, or infants, certain additional requirements must be met and the donee must provide you with a written statement.