

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 505

DATE: February 28, 2011

Version: As introduced

Authors: Davids and others

Subject: Charitable deduction of food inventory

Analyst: Joel Michael, joel.michael@house.mn; Nina Manzi, 651-296-5204

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

This bill permanently allows a deduction for contributions of food inventory by S corporations, partnerships, and sole proprietors following the rules that apply permanently to C corporations under the federal and Minnesota taxes and that apply temporarily (through tax year 2011) to businesses taxed under the federal individual income tax. The deduction would apply to both the regular and alternative minimum taxes. (Minnesota has typically conformed to this deduction in federal update legislation that extends the temporary federal provision. This bill would permanently establish these rules without regard to whether they are in effect for federal purposes or not. Double deduction would not be allowed in any years in which Minnesota conforms to the federal rules as part of update legislation.)

Background. Under the general charitable contribution rules, a business contributing inventory is limited to deducting an amount equal to its basis in the inventory (i.e., the costs it has incurred in creating the inventory), or the fair market value, whichever is less. Special rules apply to food inventory that allow a C corporation to deduct a larger amount than its basis. Under this bill, S corporations, partnerships, and sole proprietors would be allowed the same deduction for contributions of food inventory that is available to C corporations. The business would be allowed to deduct the lesser of the following for food inventory (contributed to a nonprofit that distributes or uses the food as part of its charitable mission):

1. Basis plus one-half of the appreciation (fair market value less basis)
2. Two times basis

This deduction is limited to ten percent of the taxpayer's net income from all S corporations, partnerships, and sole proprietorships. The special deduction only applies to "apparently wholesome food" - that is (as defined in federal law), food intended for human consumption that meets all quality and labeling standards imposed by federal, state, and local laws and regulations, even though the food may not be marketable due to appearance, age, freshness, grade, size, surplus or other conditions.