

ARE YOUR CHARITABLE CONTRIBUTIONS DEDUCTIBLE?

We are frequently asked about the deductibility of wine donated to various non-profits for fund-raising events. In short, if the wine you are donating is considered inventory for your business, such as bottled wine, it is not deductible for tax purposes. The relief of inventory is what provides you the tax deduction through cost of goods sold for that donated inventory. From the IRS point of view, you simply sold wine for zero proceeds. So in effect the charitable deduction is at cost, not fair market or retail value. With that, you may deduct any expenses related to getting the wine to the requesting organization. These include mileage or gas, postage and shipping, etc. As always, please keep proper documentation to substantiate the deduction.

For management reporting, it is a good idea to track the amount of inventory you are donating, to whom, and for what purpose. One idea is to create a “Donation” customer for whom invoices will be created every time a donation is made. The invoices will include the quantity of wine being donated and at zero price (you can do this by discounting the full price by 100% or simply using \$0). By recording the donations this way, the wine is properly being removed from inventory in a perpetual inventory system. This provides a clean and efficient way of record keeping for the inventory and charitable donations for the year.

Aside from wine, cash is another common donation that deserves some attention. Cash is typically deductible dollar for dollar, but like all IRS tax laws there are exceptions. If you are a corporation, the deduction is limited to 10% of your taxable income. For LLCs and S-corps, the amount of cash donated flows through to the individual taxpayer on Schedule K-1. From there, it will be reported on the individual’s Sch A where limitations may or may not be applied depending on the taxpayer’s other taxable activity during the year.

As recently presented by the Willamette Valley Wineries Association, below are some helpful tips and reminders related to charitable giving:

- Require a donation request form to ensure proper documentation.
- When taking phone calls from organizations asking for donations and your business cannot donate for whatever reason, reply with “we have reached our donation goals for the year” or “we have already planned our donations for the year.”
- Although time is money, the IRS doesn’t seem to agree. Time spent related to donating is not tax deductible.
- Offer a free tour or tasting instead of bottled wine to facilitate interaction with possible customers.