In This Issue:

Donations by For-Profit Businesses ..................1

Iowa Businesses Help Iowa Nonprofits .................2

Nonprofit Funding Opportunities ......................3

Training Opportunities ....4

For-profit Donors & Charities Should Note Relevant Tax Laws

by Richard Koontz, INRC Director

In a 2008 survey the Chronicle of Philanthropy found that nearly three-quarters of small businesses made annual charitable donations. Larger companies, the article states, do not give as much as small ones—77 percent of companies with less than $250,000 of earnings gave donations. See the Chronicle of Philanthropy article at http://philanthropy.com/blogs/prospecting/most-small-companies-make-charitable-donations-survey-finds/19109

Businesses often see charitable giving as an important aspect of community building, and not all are motivated by tax considerations. But it is important for businesses as well as charities to keep track of the rules governing charitable deductions as they vary from those governing donations made by individuals. Following are a few examples.

Limitations on deduction for for-profit gifts

The tax code provides a limit on the annual amount of deductions for donations a for-profit company can give, which is 10 percent of its taxable income. IRC 170(b)(2). Compare this to individuals, who can deduct 50 percent of their adjusted gross income for donations to charities. IRC 170(b)(1)(A) – or in some instances 30 percent. As with individual donors, corporations can carry forward the unused amount of a large donation for five tax years. IRC 170(d)(2).

Inventory donations

There are special issues that apply to deductions when a for-profit makes a donation not of cash but of its inventory. The tax code sets out four rules that must be followed before the gift is deductible:

(i) the use of the property by the charity is related to its charitable purpose;
(ii) the property is not transferred by the charity in exchange for money, other property, or services;
(iii) the for-profit business receives from the charity a written statement representing that its use and disposition of the property will be in accordance with the provisions of clauses (i) and (ii); and
(iv) in the case where the property is subject to regulation under the Federal Food, Drug, and Cosmetic Act, as amended, such property must fully satisfy the applicable requirements of such Act. IRC 170(e)(3)(A)

If these rules are followed then the amount of deduction is also specifically limited. It is the basis, that is the original

Donations, continued page 2
cost of the inventory, plus one half of the gain if the property were sold at fair market value, IRC 170(e)(3)(B).

In addition to the general rules about contribution of inventory, there are additional qualifications for inventory gifts of food, IRC 170(e)(3)(C); book inventory given to public schools, IRC 170(e)(3)(D); and contributions of computers for educational purposes, IRC 170(e)(6).

**Business entity considerations**

A business can be run as one of several different kinds of legal entities: a sole proprietor, a C-corporation, an S-corporation, a partnership, or a limited liability company (LLC). The rules about deductibility may change depending on which of these kinds of business entities is making the donation.

In many instances, the rules described above are for C-corporations. If the business is an S-corporation, that is, a more closely held business entity, the rules can be different. For instance, the calculation of percentage limits for an S-corporation are not the 10 percent applicable to C-corporations. They are the 50 percent/30 percent limits applicable to individuals, and this makes sense as the S-corporation shareholders are the ones responsible for the taxation of earnings, not the corporation, and so they also take the deductions. An S-corporation files a Form 1120S reporting its donation then gives each shareholder a Schedule K-1 showing their portion of that deduction.

When a business wants to transfer some interest in the business itself, there are important rules to be aware of. For publically traded companies, the corporation transferring stock to the nonprofit is relatively straightforward. The value of the stock on the exchange on the date of the gift will be the value for a deduction. The situation changes significantly when it is an S corporation. There is no exchange from which to get a stock price. An appraisal of the S-corporation stock is usually necessary. Once the charity owns the stock, it is likely to generate taxable income as unrelated business income.

Similar issues arise when a business is a partnership or LLC. Partnerships often have buy-sell agreements which limit the ability to sell the partnership interest once it is transferred to the charity. This would limit the value for purposes of deduction. As with S-corporation stock, growth on the partnership interest distributed out to the charity can generate taxable income. If a charity is considering accepting gifts of business interest it should have a gift acceptance policy which addresses these tax concerns.

**Iowa Businesses Help Iowa Nonprofits**

*by Richard Koontz, INRC Director*

According to the National Center for Charitable Statistics, in 2012 corporate gifts constituted 6 percent of the total charitable giving in the U.S. The industry groups giving the most are consumer staples and energy, a report from the Committee Encouraging Corporate Philanthropy states.

Some of the business groups that give in Iowa are insurance companies (Allied Insurance, EMC insurance Group, Grinnell Mutual Reinsurance Company and United Fire and Casualty) and banks (Citizens State Bank, Iowa State Bank, Raccoon Valley Bank and Security National Bank). A few retail companies that give are Smulekoff Furniture Company, Spahn & Rose Lumber, and HyVee, while manufacturers include Vermeer Manufacturing Company, Winnebago Industries, and Pioneer Hybrid.

A charity that is well-supported by businesses in Iowa is Children and Families of Iowa which has numerous for-profit donors. These include the Nationwide Insurance Foundation which gave over $50,000. HyVee, Principal Financial Group, and Meredith Corporation gave between $25,000 and $49,999. Bank of America, Fareway Stores, Liberty Mutual and other businesses gave between $10,000 and $24,999.

Another example is United Ways of Central Iowa, which in 2011 raised a record $25.1 million dollars. Heading up this funding were five companies that raised $1 million or more: The Principal Financial Group, Wells Fargo and Company, Nationwide Companies, Aviva USA, and Pioneer – A DuPont Business.

Rather than directly giving to charities, a number of for-profit businesses in Iowa have set up charitable foundations as a way of doing their charitable giving. One of these is Wellmark Blue Cross and Blue Shield of Iowa. The Wellmark Foundation’s mission is “to efficiently and effectively facilitate the continual improvement of health status within Iowa and South Dakota communities by providing financial and technical assistance.” Some of its grants in Iowa this past year were made to Buchanan County Conservation Board.
Nonprofit Funding Opportunities

In each issue of the INRC Quarterly we feature funding opportunities for Iowa nonprofits. If your nonprofit is a funder and you’d like to be listed, please let us know.

**Wells Fargo Bank**

**Grant program:** Corporate Giving  
**Grant description:** Contributions in areas believed to be important to the future of our nation’s vitality and success. The first priority is to support programs and organizations whose chief purpose is to benefit low- and moderate-income individuals and families.  
**Funding amounts:** In 2013 Wells Fargo gave $275 million to 18,500 nonprofits nationwide.  
**Eligible grantees:** Iowa nonprofits with 501(c)(3) status as well as government entities and public schools.  
**Grant application deadline:** October 15  
**For more information contact:** Wells Fargo Bank Community Support department at 515-245-3136 or see https://www.wellsfargo.com/about/charitable/io_guidelines

**Rockwell Collins Charitable Corporation**

**Grant program:** Community involvement: charitable giving  
**Grant description:** Giving priorities include education with an emphasis in science, technology, engineering and math (STEM) and arts and culture with an emphasis in youth development.  
**Funding amounts:** $5,000 or more  
**Eligible grantees:** Support to organizations and activities in the communities where employees live and work.  
**Grant application deadline:** April 1 – 30; August 1 - 30  
**For more information:** http://www.rockwellcollins.com/Our_Company/Corporate_Responsibility/Community_Overview/Charitable_Giving.aspx

**Andersen Corporate Foundation**

**Grant program:** Operating grants  
**Grant description:** In areas of affordable housing, health and safety, education and youth development, human services, and civic support.  
**Funding amounts:** $2,000 to $20,000  
**Eligible grantees:** 501(c)(3) nonprofits in U.S. and Canada  
**Grant application deadline:** October 15, February 15, and June 15  
**For more information:** https://www.srinc.biz/foundations/andersen-corporate-foundation/

**Iowa Businesses, from page 2**

In Hazelton, Cero Gordo County Department of Public Health in Mason City and Goodwill of the Great Plains in Sioux City.  

Other for-profits set up corporate funds at community foundations. The Community Foundation of Greater Des Moines “works with businesses to create corporate giving programs that meet the needs of businesses while providing expert philanthropic guidance.” Waterloo’s Community Foundation of Northeast Iowa has a Business in Philanthropy program (BIP) which “is dedicated to inspiring the local business community to raise the level and quality of corporate philanthropy.” The Woodruff Companies set up a fund at the Fort Dodge Community Foundation to help minority and low-income families.  

Corporations receive a charitable deduction for their gifts, but there are many other benefits. A company’s philanthropic activity may increase its reputation in the community. Employees for businesses, especially those taking part in employee matching gifts, have an increase in morale. There may be quality of life issues for families of employees who take part in supported activities. Companies that give and charities that receive corporate gifts are part of a win-win relationship in Iowa.
Training Opportunities

Nonprofit Management Academy

Combinations of courses may be taken through the Nonprofit Management Academy for a certificate in nonprofit management. Co-sponsored by Iowa State University Extension & Outreach, Johnson County; Iowa State University Extension & Outreach, Linn County; the Larned A. Waterman Iowa Nonprofit Resource Center; and United Way of Johnson County.

Registration per course, $70; CEUs an additional $25. Classes meet Thursdays, 9 am to 4 pm at the Johnson County Extension Office, 3109 Old Highway 218 South, Iowa City.

For information and to register, contact Jacky Cole by telephone at 319-337-2145 or by email at jkcole@iastate.edu.


June 19
Understanding the Human Resource Aspects of a Nonprofit
Instructor: Don Broshar, Don Broshar Consulting, LLC

September 18
Organizational Planning
Instructor: Regenia Bailey, Bailey Leadership Initiative, LLC

October 9
Legal Perspectives on Organizing Nonprofits: Principles & Procedures
Instructor: Richard Koontz, Larned A. Waterman Iowa Nonprofit Resource Center

October 30
The Secrets of a Successful Development Plan
Instructor: Jody Ruff, Xavier High School Foundation

November 13
Diversity in Your Community
Instructor: Paul Retish, University of Iowa College of Education

Workshop on Board Leadership Transitions

September 12
Board Leadership Transitions
The Iowa Museum Association (IMA) is exploring interest in the topic of transitional challenges created when leaders “age out” of daily operations. Open to anyone who works, volunteers, or is interested in nonprofit work. Possible series to be developed on the topic.
Cost: $75 for IMA members; $95 for non-members. Lunch included.
Location: Des Moines location to be determined.
Contact: If interested, contact Cynthia Sweet, IMA Executive Director at 319-239-2236 or imasweet@cfu.net.

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About Our Organization

The Larned A. Waterman Iowa Nonprofit Resource Center is a University of Iowa interdisciplinary collaboration created to make more accessible educational and service programs focused on strengthening the operational capacity of Iowa nonprofit organizations.

The INRC works collaboratively with government agencies, nonprofit organizations and educational institutions to impart new knowledge through activities and provide information and training resources to help nonprofit organizations and interested persons throughout Iowa. We seek to build the capacity and develop the effectiveness of community-based organizations and enhance the overall effectiveness of local organizations in building communities.

The INRC also introduces students to the nonprofit sector and develops their sense of public and community service.