

ARIZONA INDIVIDUAL INCOME TAX PROCEDURE

ITP 93-2

ISSUE:

What documentation is required to establish an allowable income tax subtraction for agricultural crops contributed to charitable organizations?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 43-1022 provides a subtraction from Arizona gross income of the amount allowed by A.R.S. § 43-1025 for contributions of agricultural crops to charitable organizations.

A.R.S. § 43-1025 provides that, for taxable years beginning from and after December 31, 1992, an income tax subtraction is allowed for qualified agricultural crop contributions made to charitable organizations exempt from Arizona income tax under A.R.S. § 43-1201.

A.R.S. § 43-1201 delineates those organizations exempt from Arizona income tax.

DISCUSSION:

A.R.S. § 43-1025 provides an income tax subtraction for taxable years beginning from and after December 31, 1992, for qualified crop contributions to charitable organizations. A qualified crop contribution is any contribution of a crop, or portion of a crop:

1. Grown in Arizona;
2. By a taxpayer engaged in the business of farming or processing agricultural crops;
3. Contributed to a charitable organization located in Arizona that is exempt from Arizona income tax under A.R.S. § 43-1201.

The subtraction is allowed only under the following circumstances:

1. The crop is harvested by or on behalf of the donee charitable organization.
2. The use of the crop by the donee charitable organization is related to the purpose or function constituting the basis for the organization's tax-exempt status.
3. The crop is not transferred by the donee charitable organization in exchange for money, other property, or services or for use outside Arizona.
4. The taxpayer receives from the donee charitable organization a written statement declaring that its use and disposition of the crop will be in accordance with A.R.S. § 43-1025.
5. Harvesting or processing the crop in the normal course of the taxpayer's trade or business would not be economically feasible.
6. The crop would go to waste if it was not contributed to the donee charitable organization.

The amount of the subtraction is limited to either 80 percent of the wholesale market price or 80 percent of the most recent sale price for the crops contributed, whichever is greater.

Wholesale market price means the average wholesale market price for the contributed crop in the nearest regional market during the month in which the contribution is made. The price is determined without consideration of the grade or quality of the crop and as if the quantity of the contributed crop was marketable.

Most recent sale price means an amount equal to the price that the taxpayer would have received for the contributed crop if the crop had been sold by the taxpayer on the date of the most recent sale of such a crop. The amount is determined as if the taxpayer had sold the crop on that date at the same price per unit as the crop that was sold or at the price determined by an agricultural market service on the date the crop is contributed.

PROCEDURE:

To establish an income tax subtraction for crops contributed to a charitable organization the taxpayer should have the following documentation. The documentation is not required to be filed with the taxpayer's return but must be maintained in the taxpayer's files subject to review by the Department of Revenue.

1. A statement signed by the harvester of the crop which indicates the following:

- a) The crop harvested.
- b) Who harvested the crop (e.g., Department of Corrections Unit or other organization harvesting the crop for the charitable organization).
- c) Amount of crop harvested.
- d) Date(s) the crop was harvested.

2. A statement signed by the donee charitable organization(s) declaring that the use and disposition of the crop will comply with the requirements of A.R.S. § 43-1025. The statement should also indicate the following:

- a) The crop received.
- b) Name of donor.
- c) Amount of crop received.
- d) Date(s) of donation.

3. Documentation supporting the wholesale market price or the most recent sale price used to determine the amount of the subtraction. This may include published market reports (e.g., Western Melon and Vegetable Report) and invoices or published reports evidencing the most recent sale price.

Harold Scott, Director
Date Signed December 6, 1993

Explanatory Notice

The purpose of a tax procedure is to provide procedural guidance to the general public and to department personnel. A tax procedure is a written statement issued by the department to assist in the implementation of tax laws, administrative rules, and tax rulings by delineating procedures to be followed in order to achieve compliance with the law. **Relevant statute, case law, or administrative rules, as well as a subsequent procedure, may modify or negate any or all of the provisions of any tax procedure.** See GTP 92-1 for more detailed

information regarding documents issued by the Department of Revenue.