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How Companies Help Charities And Cut Inventory

**Increasing Product Giving
Also Yields Tax Advantage;
Marvel Donates Comic Books**

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American companies are becoming more charitable -- with their own products.

Last year, for the first time, more than half of all charitable contributions by U.S. companies -- 54.2% -- were merchandise, not cash, according to a survey by the Conference Board, a New York business research think tank. That's up from 35% in 2002, and was partly driven by increased medical donations by the pharmaceutical industry. But corporations donate a lot more than medicines -- everything from computer software to comic books, with many products given at this time of year.

Nonprofit organizations, charities and churches, especially those that offer assistance to the poor, say they welcome the trend and their clients are grateful for receiving free products. In many cases, nonprofits use donations -- like computer software and printers -- themselves. But there have been abuses over the years and some experts caution that the entire practice and the tax regulations surrounding it aren't monitored closely. "The tax rules might have gotten to be a bit too broad," says Bruce R. Hopkins, an expert in nonprofit tax law.

The trend also has spawned a small group of nonprofits that act as middlemen between companies and charities and for whom product donations have become big business.

Sophia A. Muirhead, a senior research associate at the Conference Board, says the increased product donations are part of an overall trend of increased corporate giving, including cash. "Everything's going up, but products are far outpacing everything else," she says.

Known in the world of charity as "product philanthropy," the growing practice stems in part from an obscure 1976 tax provision by Congress that allows big companies to take up to twice the tax deduction they normally receive if they donate goods to charity instead of discarding them. Under a complex formula, companies can deduct up to double their "cost basis" -- generally, their manufacturing cost -- provided the products go to a nonprofit organization "solely for the care of the ill, the needy" or minor children. Normally, companies that discard unsold items can only expense their cost basis.

The Conference Board says 189 large corporations and corporate foundations told it that the "tax value" of their product donations last year totaled \$3.5 billion; the Internal Revenue Service says it doesn't know the total amount for all U.S. companies. In 2002, the IRS says, U.S. companies claimed a total of \$10.3 billion in charitable deductions, counting both goods and cash.

Charities say the practice of donating products has done a lot of good -- including providing families who lost homes in recent hurricanes new clothing and other necessities.

Hewlett-Packard Co., in its 2004 fiscal year, donated \$45 million in products and \$16.6 million in cash. "The emphasis is definitely on product philanthropy," says Dan Kostenbauder, the company's vice president of transaction taxes. Instead of giving \$1,000 in cash, he says, the company can donate products with "significantly more value," giving it "more leverage." The company's cash donations have steadily fallen in recent years, down from \$24 million in 2002.

Donating products also offers companies the chance to reduce excess inventories. The products generally can't be sold at retail because they've been replaced by newer models, returned by customers or the packaging has changed.

"The motivation in my experience is not so much we want to help the world, but we've got an inventory problem and if we can do some good while solving that problem, that's great," says Tim Mills-Groninger, a board member of Educational Assistance Ltd., of Glen Ellyn, Ill. The nonprofit group gives products donated by corporations to colleges in exchange for the schools providing scholarships for needy students.

Cathleen J. Chizauskas, vice president of civic affairs for Procter & Gamble Co.'s Gillette unit, says charitable product donations can keep excess inventory from going to liquidators, meaning companies avoid undercutting sales of their latest products.

In the 1990s, some pharmaceutical companies were accused of dumping large quantities of expired or unneeded medications during relief efforts. More recently, some donated products have ended up in the hands of people who were not sick, poor or minors, as tax laws stipulate.

In May, a church in Nashport, Ohio, gave away company-donated products valued at \$50,000 -- everything from hardware to wedding dresses -- to anyone in the community who wanted it. "We try as much as possible to give it to people who really need it, but we don't discriminate when it comes to that," says Wade Wetzel, a board member of the Black Run Church of God. Meanwhile, the head of the Alpha Park Public Library District in Bartonville, Ill., says until 2003 his organization awarded donated corporate products to employees in recognition of their many years of service. "How we ended up using it really probably was not the way it was supposed to be," says John Richmond, the library district's director, who stopped the practice.

Marvel Entertainment Inc. has donated to charity millions of Spiderman and other comics, which are usually production overruns, according to Miles Lamp, the company's vice president for tax.

Mr. Lamp and officials with nonprofits that have distributed the comics say they are "for the care of" children, as tax regulations require, because they can be used to encourage reading. "Normally, it's not something you and I consider educational," Mr. Lamp says. "My understanding is a lot of it goes to schools and they use it for reading material."

Mr. Lamp says Marvel takes the enhanced tax deduction, but the amounts are "really minimal." Still, he says, "as small as the tax benefit is, it is a benefit and if we had to dispose of them we wouldn't have that benefit and we would have disposal costs."

The history of the enhanced deduction for corporate products dates back more than 30 years. In 1969, Congress revised the tax code to crack down on high-income taxpayers who had found a loophole in the tax code: They could come out ahead by donating property to charity rather than selling it.

But some charities later complained that the reform reduced corporate contributions of products for impoverished families and disaster victims. In response, Congress in 1976 provided a special enhanced tax incentive for corporations to donate goods to charities. By law, the products can't be resold or bartered.

The enhanced deduction rules later were expanded to include scientific property used for research and computer equipment donated to schools. As part of this year's

Hurricane Katrina emergency act, Congress added donations of educational books to public schools. Last month, the Senate passed a tax bill that would further increase the tax break for certain donations of books and food; the House hasn't yet considered the legislation. Product donations can't exceed 10% of a corporation's taxable income in any year.

The pharmaceutical industry has emerged as the biggest product giver, according to the Conference Board. James Russo, executive director of the Partnership for Quality Medical Donations, an association of health-care manufacturers and nonprofits, says its dozen corporate members alone donated \$3.7 billion in medical products between 1999 and 2003. He says the donations are a means of both helping people in developing countries and disposing of excess inventory. "What's going on more and more is a sort of mix of the two," he says.

Corporate goods totaling more than \$1 billion at retail prices are administered each year by two nonprofits that act as middlemen between companies and charities -- the National Association for the Exchange of Industrial Resources, or Naeir, in Galesburg, Ill., and Gifts in Kind International based in Alexandria, Va. "We see it as an efficient way to donate products to a large number of nonprofit organizations," says Cindy Kleven, manager of contributions for 3M Co., which uses both nonprofits.

Gifts in Kind says it handled donated products with a retail value of \$800 million from 44% of the Fortune 500 last year.

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