

New CARES Act Creates Special Tax Incentives for Charitable Giving

On Friday, March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act" or "Act"). The Act was one of several Congressional responses to the COVID-19 emergency and it covered many areas, including the tax benefits related to charitable giving.

In summary, the CARES Act impacts charitable giving in four specific ways:

1. Creates an ongoing "above-the-line charitable deduction of \$300 per year.
2. Waives RMDs from IRAs for 2020, but they can still be used for charitable giving.
3. Greatly increases allowable deductions for larger cash gifts.
4. Increases the ability of individuals and corporations to donate gifts of food in 2020.

Special \$300 deduction. - The CARES Act gives a new benefit to taxpayers who choose not to itemize their deductions. Generally, taxpayers who claim the standard deduction do not get a tax benefit related to any charitable contributions they make during the tax year. However, the CARES Act changes this by allowing taxpayers, who do not itemize their deductions, to deduct up to \$300 of cash contributions to public charities with an above-the-line deduction in tax years beginning in 2020. Unlike the other charitable contribution provisions of the CARES Act, this provision is not limited to just 2020, and applies to all years going forward.

RMD's from IRA's waived for 2020. Anyone who turned 70 ½ in 2019 or earlier is required to take an annual distribution from their IRA or retirement account called a Required Minimum Distribution (RMD). The CARES Act waives this requirement for 2020. This does not mean retirees cannot still take distributions from their IRA, it simply means they are not required to do so this year.

Many retirees have used their RMD to fund their gifts to HP Pres. By giving the RMD directly to the church as a Qualified Charitable Distribution (QCD), you can avoid paying income taxes on the normally taxed withdrawal. This has been especially helpful for those retirees who no longer itemize their deductions.

Even though RMDs are waived in 2020 under the new law, you can still use your IRA to fund charitable gifts using the QCD method. To do this, make sure the funds are transferred directly from your IRA to the church and it will be excluded from taxable income. Even if there are no RMDs this year, this is still an efficient way to make charitable gifts and minimize taxes.

Only IRA owners who are age 70 1/2 or older qualify for this. If you use the standard deduction and don't do a QCD, your only charitable deduction is likely to be the new \$300 above-the-line deduction created by the bill. QCDs give you back a tax benefit that would otherwise be lost, and another reason to withdraw from your IRA, even if you don't have to.

Increased deductions for larger cash gifts - Generally, there are limitations on deductions for charitable contributions for both individual and corporate taxpayers based on the taxpayer's adjusted gross income ("AGI"), in the case of individuals, and taxable income, in the case of corporations. The CARES Act increases the limit on individual taxpayers' deductions for cash contributions to public charities from 60% of the individual's AGI to 100% of the individual's AGI. This increase effectively suspends the limit for individuals in 2020. For corporate taxpayers, the CARES Act increases the income limits on the deduction for charitable cash contributions from 10% of the corporation's taxable income to 25% of the corporation's taxable income.

These changes allow taxpayers to take a larger deduction for charitable contributions for 2020 than would normally be available. However, it is important to note that both of these increased limits under the CARES Act only relate to cash contributions as opposed to donations of stock, real estate, or any other non-cash items. Additionally, the increased limits for individual and corporate taxpayers are limited to contributions made to public charities such as HP Pres and are therefore not applicable to contributions to private foundations (other than private operating foundations) or donor-advised funds.

Special deduction for food donations - Separately, the CARES Act also increased the limit on deductions with respect to the charitable contribution of food in 2020 from a taxpayer's trade or business from 15% to 25% of the taxpayer's taxable income.

Please note: This is provided for informational purposes only and is not intended as financial or tax advice or recommendations. Be sure to consult your financial or tax advisor before making any decisions. For more information about how current tax laws can impact your charitable donation strategy, please go to www.hppres.org/tax-smart-giving.