

The CARES Act creates charitable tax incentives

Many individuals incorporate charitable giving into their estate plans, providing assistance to their favorite charities while preserving sufficient assets for their heirs. Typically, the charitable donations are structured to maximize the tax benefits on the books.

Now, the Coronavirus Aid, Relief and Economic Security (CARES) Act increases those tax incentives. Under the CARES Act — adopted to address the fallout from the COVID-19 pandemic — taxpayers of all stripes may realize additional tax savings from charitable donations in 2020.

New deduction for nonitemizers

Do you still itemize tax deductions on your federal tax return? It can make a big difference in how you approach charitable giving.

Significantly, you may choose to opt for the standard deduction on your personal return or claim itemized deductions within certain limits, based on which method provides the bigger write-off. In the past, moderate-to-high-income taxpayers generally fared better by itemizing. This allowed them to take advantage of deductible expenses like mortgage interest and state and local tax (SALT) payments.

But the Tax Cuts and Jobs Act (TCJA) changed the landscape. Effective for 2018 through 2025, the TCJA limits certain deductions, such as SALT payments and mortgage interest, while suspending others, including write-offs for casualty and theft losses outside of disaster areas. At the same time, it effectively doubled the standard deduction. For 2020, the inflation-indexed deduction is \$12,400 for single filers and \$24,800 for joint filers.

The CARES Act authorizes, for those who don't itemize, an "above-the-line" deduction for up to \$300 of charitable donations made to qualified organizations in 2020. The qualified organization doesn't have to be

associated with COVID-19 assistance. However, the deduction isn't available for donations to donor advised funds (DAFs) or private foundations.

Higher AGI limit

The tax law imposes several annual limits on deductions for charitable contributions. For example, if you donate property to a charity, the deduction for the property can't exceed 30% of your adjusted gross income (AGI). Any excess may be carried over for up to five years.

Similarly, the annual deduction for monetary gifts is limited to 60% of AGI for 2018 through 2025. The TCJA raised this threshold from 50% of AGI. The CARES Act boosts the limit to 100% of AGI for the 2020 tax year. In effect, you can donate as much as your AGI for the entire year and write off the full amount. Any excess is still carried forward. As with the deduction for nonitemizers, the higher limit doesn't apply to gifts to DAFs or private foundations.

Qualified charitable distributions

Under current law, an individual age 70½ or older can transfer a "qualified charitable distribution" (QCD) directly from an IRA to a qualified organization without paying any tax on the transfer. On the other hand, you can't deduct the contribution, either. The amount of the QCD is limited to \$100,000 per year (\$200,000 for a married couple if both spouses qualify).

Notably, you can use a required minimum distribution (RMD) for a QCD. Participants in IRAs must begin taking RMDs from their accounts by April 1 of the year following the year in which they turn age 72. Previously, the required beginning date was based on age 70½ — the same as the age for QCDs — but the Setting Every Community Up for Retirement Enhancement (SECURE) Act pushed back the required beginning date, beginning in 2020.

The CARES Act doesn't touch the rules for QCDs, but it does permit IRA participants to skip RMDs for the 2020 tax year, including those required for

inherited accounts. Nevertheless, you can still choose to transfer amounts directly from an IRA to a charity, assuming you qualify.

Follow the rules

The new tax laws may affect your charitable giving strategies in 2020. Contact your estate planning advisor to ensure that your charitable giving plan takes full advantage of the new tax laws.

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