IMPORTANT INFORMATION ABOUT CHARITABLE GIVING FOR 2020

New tax incentives for charitable giving in 2020 came in March with passage of the Coronavirus Aid, Relief and Economic Security (CARES) Act. The law gives donors who plan to take the standard deduction the option to claim an above-the-line deduction of up to $300 for cash contributions to operating charities. The CARES Act also gives donors who will itemize deductions an option to elect a 100% of AGI deduction limit for cash donations, and deduction amounts above this limit may be carried over for up to five years.2 With both options, the cash donations must be made directly to operating charities and cannot go to donor-advised funds, supporting organizations, or private foundations.

As donors contemplate how they might respond to the uncertainty of these unprecedented times during the remainder of 2020, a few strategies are worth considering to help make charitable giving both tax-smart and high-impact.

Give Appreciated Non-Cash Assets

For those who itemize deductions, appreciated non-cash assets, such as stocks, ETFs and mutual funds held more than one year, may offer an additional tax benefit in comparison to cash donations. Beyond claiming a deduction for the fair market value of an asset, donors can potentially eliminate the capital gains tax they would incur if they sold the asset and donated the cash proceeds. This can mean even more going to charity and less to taxes, as shown in the example below.

Take Advantage of Charitable Deduction Rules and Bunching Opportunities

Give Up to and Beyond Existing Limits and Carry Over the Excess Deduction:
Donors who wish to itemize deductions for non-cash assets, cash, or a combination of both may choose to give beyond the deduction limit and carry over the excess deduction for up to five years.

Bunch Contributions:
Some donors may find that the total of their itemized deductions is just below the level of the standard deduction. They may find it beneficial to bunch 2020 and 2021 charitable contributions into one year (2020), itemize their deductions on 2020 taxes, and take the standard deduction on 2021 taxes. In addition to achieving a large charitable impact in 2020, this strategy could produce a larger two-year deduction than two separate years of itemized charitable deductions, depending on income level, tax filing status, and giving amounts each year.

Donors who bunched two or more years of contributions in 2019 and will subsequently take the standard deduction for 2020 may also consider taking the CARES Act's $300 deduction for cash donations made to operating charities.

Give More by Looking at Retirement Assets

Make a Qualified Charitable Distribution (QCD) of IRA assets:
Whether itemizing or claiming the standard deduction, individuals age 70½ and older can direct up to $100,000 per year tax-free from their Individual Retirement Accounts (IRAs) to operating charities through QCDs.3 By reducing the IRA balance, a QCD may also reduce the donor's taxable income in future years, lower the donor's taxable estate, and limit the IRA beneficiaries' tax liability.

Use a Charitable Deduction to Help Offset the Tax Liability of a Retirement Account Withdrawal:
Those over age 59 ½ (to avoid an early withdrawal penalty) who take withdrawals from retirement plan accounts in 2020 may use deductions for their charitable donations to help offset income tax liability on the withdrawals. As with the above strategy, this offers the additional benefits of potentially reducing a donor's taxable estate and limiting tax liability for account beneficiaries.

Convert Retirement Accounts to Roth IRAs:
Individuals who have tax-deferred retirement accounts, such as traditional IRAs, can use charitable deductions to help offset the tax liability on the amount converted to a Roth IRA. The primary benefits of a Roth IRA are tax-free growth, potentially tax-free withdrawals (if holding period and age requirements are met), no annual required minimum distribution, and the elimination of tax liability for beneficiaries (depending on the timing). Be sure to talk with a tax professional or financial advisor before deciding to do a Roth IRA conversion.

Additional Resources (Hyperlinked):

Tax Alert 2020-05, March 27 Legislation: Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act")

Understanding Your Choices When You Inherit an IRA

Provisions for Charitable IRA Contributions

Charitable Giving – A Structured Appraoch