CAMBRIDGE IN AMERICA

The CARES Act and the Charitable Deduction

The CARES (Coronavirus Aid, Relief, and Economic Security) Act was signed into law in March 2020. This Act, amongst other things, removes the limit for the amount of charitable deductions you can claim, meaning that for 2020 you can deduct all of the charitable gifts you make across the year from your AGI, thereby reducing, or even potentially eliminating completely, your federal income tax bill. Additionally, any excess charitable gifts you give, that mean you donate more than your income for the year, can be carried forward for up to 5 years. If donors are still thinking about making a significant gift, it may mean 2020 is an attractive time to do so tax-wise and they should speak with their advisors.

Example:

For 2020 only, if your AGI is $100,000, you may deduct $100,000 in charitable contributions and wipe out your income tax liability entirely. This may help charities secure some particularly large donations from wealthy itemizers who are charitably inclined.

Previously, if your AGI was $100,000 you could deduct no more $60,000 in charitable contributions; so, if you contributed $70,000, the extra $10,000 would have had to be carried forward and deducted the following year.

In more detail:

What is the Charitable Deduction?

When US taxpayers go through the process of submitting their tax paperwork to the IRS each year, one of the potential deductions you can claim is the ‘Charitable Deduction.’ In order to be able to take advantage of the Charitable Deduction, you must “itemize” your tax deductions and this only makes sense to do if you can “itemize” more than the standard deduction amount – which is set at $24,800 for married couples filing jointly or $12,400 for individuals. So, what we describe below only comes into play for gifts over these amounts.

The Charitable Deduction allows you to lower your taxable income, known as Adjusted Gross Income (AGI) and lower your tax bill for gifts made to qualified, tax-exempt charities (such as 501(c)(3)’s like CAm).

What is AGI?

Your AGI is your gross income — which includes wages, dividends, alimony, capital gains, business income, retirement distributions and other income — minus certain payments you’ve made during the year, such as student loan interest or contributions to a traditional individual retirement account or a health savings account.

How did the CARES Act change the Charitable Deduction?

There are usually rules which limit how much of a charitable deduction you can take each year. Previously, you could claim a charitable deduction for gifts made to public charities of up to 60% of your AGI (see above) for cash gifts, up to 30% for gifts of appreciated assets (stock) or up to 50% for a mixture of cash and appreciated assets.

The CARES Act removes the charitable deduction cap on gifts to public charities (note: this excludes Donor Advised Funds and Supporting Organizations) meaning you can make deduct up to 100% of AGI for 2020. Any excess contributions can be carried over to the next five years but will be subject to the normal 60% of AGI limit.

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