The CARES Act and New Charitable Contribution Rules

2020 has been a difficult year for individuals, businesses, and nonprofits as we all have navigated the various impacts of the COVID-19 pandemic. Knowing the desire of the American people to reach out and help others in time of need, lawmakers included several significant changes in the Coronavirus Aid, Relief, and Economic Security (CARES) Act that was signed into law on March 27, 2020 to encourage charitable giving. As your donors begin their year-end tax planning, it is important to make them aware of these key changes.

Individual Contributions

Under the CARES Act, beginning in 2020, individuals who do not itemize deductions may deduct up to $300 in charitable cash contributions (the limit applies regardless of the filing status). This universal charitable deduction is an above-the-line deduction and is deducted from the taxpayer's income prior to the calculation of adjusted gross income. This deduction is in addition to the standard deduction.

Another positive change for individual taxpayers is this: the limitation for individuals who are still able to itemize their deductions has been significantly relaxed. Prior to the CARES Act, deductions for cash contributions to qualified charitable organizations was limited to 60 percent of the individual's adjusted gross income. Under the CARES Act, the deduction for cash contributions to a qualified public charity in 2020 has been increased to 100 percent of the individual's adjusted gross income. This is a substantial change as it could theoretically lead to zero taxable income for a donor. If the contribution amount exceeds 100 percent of the individual's adjusted gross income, then the excess can be carried forward and utilized over the next five years.

It is important to note that both of these provisions, the new universal charitable contribution and the relaxed limitation on itemized deductions, **apply to cash contributions to qualified public charities only**. Contributions of non-cash property do not qualify for this special relief. Individuals may still claim non-cash contributions as a deduction, subject to the normal limits. **Also, these special rules do not apply to contributions made to donor-advised funds or private foundations**.

Corporate Giving

As with individual giving, the adjusted gross income limit for cash contributions was also increased for corporate donors. For 2020, a corporation may deduct qualified contributions of up to 25 percent of its taxable income compared to 10 percent before the CARES Act. Contributions that exceed that amount can be carried forward and utilized over the next five years. **Once again, these new limits are applicable only to cash donations to a qualified public charity. They do not apply to contributions made to donor-advised funds or private foundations**.

The CARES Act also created a special rule encouraging contributions of food inventory for the care of the ill, needy or infants. The CARES Act raised the applicable limits on the amount of the allowed deduction for food inventory from 15 percent of the taxpayer's aggregate net income or taxable income to 25 percent for tax year 2020.

The goal of these new provisions is to encourage generosity and directly deploy funds to nonprofits that are working to meet the needs arising from the COVID-19 pandemic. These changes provide opportunity for significant tax liability reductions and have the potential to help committed donors be more generous in 2020 when it is needed most. It is important that nonprofits not miss the opportunity to share these tax changes with their constituents in the coming days. As always, because of the complexities of tax law surrounding charitable contributions, it is best for a donor to seek professional tax advice when contemplating a significant gift.

For more information related to these tax changes refer to https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contribution-deductions