

## Charitable Giving in 2020

Due to the 2020 COVID-19 pandemic and its impact on the economy, *charitable organizations need more help than ever*. For individuals who are charitably inclined, there are significant tax advantaged giving opportunities to consider this year under the SECURE and CARES Act.

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With the constant headlines covering the pandemic and volatile markets, it can be easy to overlook the positive outreach occurring around the country. Whether it be providing meals to front-line workers or increasing company matches on employee charitable contributions, there are numerous ways we can give back and spread positivity amongst our communities. Recent changes in the tax law now provide even greater incentives to give back to organizations in need.

### CHARITABLE DEDUCTIONS IN 2020

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided particularly strong federal income tax incentives for those making charitable contributions this year. Under the CARES Act, individuals may take a charitable deduction for cash contributions directly to public charities equal to 100% of the taxpayer's 2020 adjusted gross income. Previously, this AGI threshold limitation for cash donations was 60% for individuals. This higher income threshold does not apply to cash gifts made to a private foundation, community organization or a donor advised fund (DAF.) AGI thresholds for other donated property, such as appreciated stocks, and physical assets remains the same.

TYPE of GIFT	RECIPIENT of GIFT	TCJA-AGI limit	CARES ACT-2020-AGI limit
<b>CASH</b>	<b>Public Charity</b>	60%	<b>100%</b>
CASH	Private Foundation <sup>1</sup>	50%	50%
CASH	Donor Advised Fund	60%	60%
LT Capital Gain property	Public Charity	30%	30%
LT Capital Gain property	Private Foundation <sup>2</sup>	30%	30%
LT Capital Gain property	Donor Advised Fund	30%	30%

<sup>1</sup>50% limit only applies to private foundations described in U.S. Code § 170(b)(1)(F); All others subject to 30%

<sup>2</sup>30% limit only applies to private foundations described in U.S. Code § 170(b)(1)(F); All others subject to 20%

Corporations may now deduct up to 25% of their taxable income for cash gifts to public charities in 2020, increased over the previous 10% limit. Additionally, the limitation on deductions for food donations by corporations increased from 15% to 25% in 2020.

Additionally, individuals who do *not* itemize (an estimated 90% of the US tax-filers now take a standard deduction) may take an “above the line deduction” for charitable cash contributions made to section 501(c)(3) organizations (not to a DAF) on their 2020 tax return, not to exceed \$300. Above the line deductions are reported on the IRS form 1040, Schedule 1, and include items such as educator expenses, health savings account deduction, deductible self-employment taxes, deductible contributions to retirement accounts, student loan interest, tuition and fees, and others. The “above the line deductions” are separate items from the itemized deductions provided on the form [1040 Schedule A](#) and are also different from the standard deduction that can be claimed on line 9 of the IRS form 1040.

### QUALIFIED CHARITABLE DISTRIBUTIONS

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) has delayed the start age for Required Minimum Distributions (RMD) to age 72; however, a Qualified Charitable Distribution (QCD) can still be made from an IRA after the account owner turns age 70 ½. The QCD rules allow taxpayers to make IRA distributions payable directly to a qualified charity without treating the distribution as taxable income. This law permits up to \$100,000 per eligible IRA owner to be contributed directly from their IRA to charity. QCDs can be utilized by individuals who do not itemize and consequently, reduce AGI which can allow a donor to remain eligible for deductions and credits that might be lost if a taxpayer recognized an RMD in income.

Furthermore, the CARES ACT has waived RMDs in 2020, but the QCD remains an option. Individuals should still consider making a QCD to satisfy charitable intent while reducing the IRA balance for future RMDs (whether their own or their heirs.)

### PRIVATE FOUNDATIONS

As long as certain procedures are followed, the IRS permits private foundations to make hardship and emergency grants to individuals without seeking prior approval.

- **Hardship assistance** grants can be made to individuals that have experienced job loss, family illness, or other temporary displacement. The applicants must demonstrate financial need.
- Grants for **emergency assistance** (including medical emergency/disaster relief) can be provided to individuals that have experienced a life-altering emergency, tragedy, or natural disaster preventing basic needs being met. The grant can be used to pay for food, clothing, shelter, transportation, and medical treatment regardless of financial need due to the urgency of the need.

In addition, the SECURE Act made another change to the tax code that may be relevant to estate planning clients. The previous excise tax of 2% (and if certain requirements were met, a 1% tax) on the net investment income of most domestic tax-exempt private foundations, including private operating foundations, is now a single rate of 1.39%, effective for taxable years beginning in 2020.

### CONSIDERATIONS AND NEXT STEPS

To determine if these strategies are right for you, contact your Baird Financial Advisor.