

THE KRESGE FOUNDATION



CARES Act: New Opportunities to Incentivize Charitable Giving

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The COVID-19 pandemic has prompted significant disruptions to how organizations are addressing operations and fundraising.

The **Coronavirus Aid, Relief, and Economic Security (CARES) Act** signed on March 27, 2020 made several changes to tax law for both businesses and individuals. One important change relates to increasing an individual's eligibility to deduct charitable contributions. This was done to encourage increased giving to nonprofits particularly during the pandemic.

The good news is that unlike past charitable donations, tax filers don't need to itemize to take advantage of this new opportunity to support their favorite nonprofit and secure a tax benefit.

By communicating these changes and benefits to potential donors, nonprofit organizations may have an opportunity to increase contributions during this critical time.

However, there are caveats to keep in mind when engaging prospective donors.

The CARES Act may impact donors differently depending on their individual tax situation. So, it's important for the donor to know whether they plan to take the standard deduction or itemize on their 2020 tax return.

It's also recommended that the donor understand that nonprofits are unable to provide tax advice and that donors should consult their tax advisors for specific advice.

Here is a quick summary of the Charitable Contribution Deduction Rules:

- **Non-Itemizers (Using the Standard Deduction)**
 - ◇ Previously, individuals who took the standard deduction were **not** able to deduct any charitable contributions on their tax return.
 - ◇ Under the CARES Act, individuals who use the standard deduction are **now eligible** to deduct up to \$300 of contributions in computing their Adjusted Gross Income.
 - » The contribution must be a cash contribution made in the current tax year.
 - » It must be made to a 501(c)(3) public charity.
 - » The contribution cannot be made to private foundations, supporting organizations and donor advised funds.
 - ◇ This deduction is a **permanent** change, and it is only available to individuals who do not itemize.

- **Itemizers**

- ◇ Individuals who itemize were also given a new deduction opportunity under the CARES Act, however **this is only for the 2020 tax return.**
- ◇ Before the CARES Act, individuals who itemized could **only deduct charitable contributions up to 60% of their Adjusted Gross Income (AGI).**
 - » Any excess would be carried forward to use in a future year.
- ◇ For 2020, itemizers will be able to **deduct contributions up to 100% of their AGI.**
 - » The contribution must be a cash contribution made in the current tax year.
 - » It must be made to a 501(c)(3) public charity.
 - » No more than 40% of 2020 charitable contributions may be made to private foundations, supporting organizations and donor advised funds.
- ◇ This new 100% limit is applied after considering all other Adjusted Gross Income limits on non-cash contributions/carryforwards.
- ◇ Any excess cash contributions not deducted in 2020 can be carried forward.
 - » Will be subject to the 60% of Adjusted Gross Income limit in the following five years.

As nonprofits prepare for fall and winter fundraising campaigns, we hope these CARES Act provisions create new opportunities to incentivize charitable giving among prospective donors and to raise funds in support of their missions.

*******Please note:** Tax information included in this communication may not contain a full description of all relevant facts or a complete analysis of all relevant tax issues or authorities. This communication is prepared solely for informational purposes and should not be relied as tax advice. Please consult your tax adviser for specific advice regarding the tax-deductibility of charitable contributions as it relates to your particular tax situation.*****