

Charitable Giving Incentives Under the CARES Act

Presented by Steven E. Richardson, CFP®, CRPS®, President

With many individuals and families facing catastrophic hardships because of the COVID-19 pandemic, charitable giving to those most adversely affected has become increasingly important. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted in March 2020, included tax provisions designed to incentivize individuals and companies to make charitable contributions in 2020. The Consolidated Appropriations Act, 2021, enacted in December 2020, extends these incentives through December 31, 2021. These charitable giving incentives do not require that donations be made to charities assisting in the pandemic.

Above-the-Line Charitable Deduction

For the 2020 or 2021 tax years, each taxpayer can take an above-the-line charitable deduction of up to \$300 for certain charitable contributions. Typically, charitable contributions are deductible only for individuals and couples who itemize their deductions; however, this new deduction applies only to those taking the standard deduction. Most taxpayers use the standard deduction since the passage of the Tax Cuts and Jobs Act of 2017, which removed many itemized deductions.

Contributions to a donor-advised fund (DAF) are not eligible for this above-the-line deduction; therefore, to take this new deduction, taxpayers should verify they are contributing to an eligible charitable cause.

Income Cap Removed for Charitable Contributions

Although the above-the-line deduction is not available for those who itemize their deductions, the CARES Act did make changes to certain tax limitations for those who itemize to incentivize larger gifts. For 2020 and 2021, the deduction available on cash contributions to charitable organizations has been increased from 60 percent of a taxpayer's adjusted gross income (AGI) to 100 percent. Taxpayers can carry donations greater than 100 percent of their AGI to future years.

This applies only to cash contributions and not to long-term appreciated assets, which enjoy long-term capital gain tax treatment. The charitable deduction for long-term appreciated assets is still capped at 30 percent of AGI. For corporations, the deductibility of cash contributions has been increased temporarily from 10 percent to 25 percent of taxable income.

Like the restrictions related to the above-the-line deduction, the removal of the AGI cap does not apply to gifts made to DAFs.

An Excellent Time to Give

With so many in dire need of assistance, it's a wonderful time to help the community through charitable giving. As a bonus for their generosity, individuals and companies should be sure to use these new tax incentives.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

###

Steven E. Richardson, CFP®, CRPS®, President is located at Potomac Financial Private Client Group, LLC, 11130 Sunrise Valley Drive, Suite 130, Reston, VA 20191 and can be reached at 703.891.9960 The financial consultants of Potomac Financial Private Client Group, LLC are Registered Representatives with/and offer securities and advisory services through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Adviser. Fixed insurance products and services offered through CES Insurance Agency.