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CLIENT ALERT

Enhanced Tax Deductions for Charitable Giving in 2020 –

What Non-Profit and Religious Corporations Need to Know

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") includes several provisions that enhance tax benefits for individuals and corporations that make qualified contributions to charitable organizations and shall apply to taxable years beginning after December 31, 2019. To encourage more charitable giving this holiday season, it may be helpful for non-profit corporations, including certain religious corporations, to make their members and congregants aware of the tax incentives provided to individuals and corporations, and review section 2204 and section 2205 of the CARES Act.

QUALIFIED CONTRIBUTIONS & ORGANIZATIONS

Section 2205 of the CARES Act defines a "qualified contribution" as a gift or charitable contribution that is: (i.) made in 2020; (ii.) paid in cash; and (iii.) made to certain organizations promulgated in Internal Revenue Code ("IRC") section 170(b)(1)(A).[1] These charitable organizations include but are not limited to, churches, hospitals and other section 501(c)(3) charitable organizations, among others listed in the IRC. Contributions made to organizations under IRC section 509(a)(3) and contributions made "for the establishment of a new, or maintenance of an existing, donor advised fund" do not qualify.[2] The paid in cash requirement is construed strictly and donations of stock, real estate or other non-cash types of property are specifically excluded from the definition of a "qualified contribution". Cash donations include those made by check, credit card or debit card.

TAX DEDUCTIBLE DONATIONS

I. Individuals

a. Above-the-line Deduction

The CARES Act adds a new above-the-line deduction, available in tax years beginning after December 31, 2019, for up to $300 for cash contributions made directly to a qualified charitable organization.[3] As an additional above-the-line deduction, it does not subtract from the standard deduction. This additional deduction lowers both adjusted gross income and taxable income, which translates into tax savings for

[1] The CARES Act Section 2205(a)(3)(A)(i)
[2] The CARES Act Section 2205(a)(3)(B)(i)-(ii)
[3] The CARES Act Section 2204(a)

donors who make these cash contributions in 2020. This new deduction cannot be used by an individual who elects to itemize deductions, as their charitable contributions will be reported elsewhere.[4]

b. Limitation on Charitable Contributions

In accordance with IRC section 170 (b)(1), deductions for cash contributions to public charities are capped at sixty percent (60%) of the individual's annual adjusted gross income.[5] Organizations that are classified as public charities include certain churches, educational organizations, hospitals, and medical research organizations. The CARES Act suspends this limitation, allowing donors to claim up to one hundred percent (100%) of their adjusted gross income as a charitable contribution for cash gifts.[6] If charitable contributions from an individual – as opposed to a corporation – exceeds the one hundred percent (100%) limitation, the excess contribution can be carried over for the next five (5) tax years.[7]

II. Corporations

Corporate deductions for charitable contributions are usually limited to ten percent (10%) of taxable income, pursuant to IRC section 170(b)(2).[8] The CARES Act increases this limitation to twenty-five (25%) of a corporation's taxable income for qualified cash contributions made in taxable years ending after December 31, 2019.[9] For partnerships or S corporations, the increased contribution deduction must be made separately by each partner or shareholder similarly to other deductions made by such entities.[10] If a corporation's charitable contributions exceed the twenty-five percent (25%) limitation, the excess contributions may be carried over for the next five (5) tax years.[11]

III. Food Inventory

The CARES Act also modifies the cap on permitted deductions for contributions to food inventory (i.e., food pantries), by increasing the deduction limit of individuals and corporations to twenty-five percent (25%) of taxable income[12], rather than the earlier fifteen percent (15%).[13]

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[4] The CARES Act Section 2204(b)
[5] IRC Section 170(b)(1)(G)(i)
[6] The CARES Act Section 2205(a)(1)
[7] The CARES Act Section 2205(a)(2)(A)(ii)
[8] IRC Section 170 (b)(2)
[9] The CARES Act Section 2205(a)(B)(i)
[10] The CARES Act Section 2205(a)(3)(C)
[11] The CARES Act Section 2205(a)(2)(B)(ii)
[12] The CARES Act Section 2205(b)
[13] IRC Section 170(e)(3)(C)

ADDITIONAL RESOURCES FROM THE INTERNAL REVENUE SERVICE ("IRS")

The IRS has provided a list of resources for individuals and corporations interested in making these donations and receiving these tax benefits. The below links may be helpful for your non-profit corporation and religious corporation during this holiday season to encourage donations:

- Tax Exempt Organization Search (TEOS). Taxpayers must give to qualified organizations to deduct their donations on their tax return. They can use this tool to find out if a specific charity qualifies as a charitable organization for income tax purposes. Click here.

- Schedule A, Itemized Deductions. Taxpayers deducting donations do so on Schedule A. The instructions for this form include line-by-line directions for completing it. Click here.

- Publication 526, Charitable Contributions. This publication explains how taxpayers claim a deduction for charitable contributions. It goes over: (i.) how much taxpayers can deduct; (ii.) what records they must keep; and (ii.) how to report contributions. Click here.

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