COVID-19 Stimulus Package / CARES Act

CARES Act for Nonprofits – On Friday, March 27, the Congress passed, and the President signed into law, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a $2 trillion economic stimulus package legislated to provide immediate relief for nonprofits.

The inclusion of an expanded charitable giving incentive is a critical acknowledgement by Congress that the work of nonprofits like PCI are essential services. This is the first time Congress has passed this type of giving incentive in response to disaster or national emergency.

We know that this disease outbreak is having the greatest impact on those who are already fighting hunger, extreme poverty and other serious health issues. Women, children and families without access to health care, economic opportunities, or clean, safe water are being hit the hardest – and our work is critical to continue during this time.

Overview:

New Deduction Available: The bill makes a new deduction available for up to $300 per taxpayer ($600 for a married couple) in annual charitable contributions. This is beneficial to people who take the standard deduction when filing their taxes (i.e. taxpayers who do not itemize their deductions). It is calculated by subtracting the amount of the donation from your gross income. It is an “above the line” adjustment to income that will reduce your Annual Gross Income (AGI), and thereby reduce taxable income.

To qualify, you will just need to give a donation to a qualified charity. If you have made donations since January 1, 2020 those contribution counts toward the $300 cap. Donations to donor-advised fund (DAF) does not qualify for this new deduction.

New Charitable Deduction Limits: As part of the bill, individuals and corporations that itemize can deduct much greater amounts of their contributions. Individuals can elect to deduct donations up to 100% of their 2020 AGI (up from 60% previously). Corporations may deduct up to 25% of taxable income, up from the previous limit of 10%.

The new deduction is only for cash gifts that go to a public charity. If you give cash to, say, your private foundation, the old deduction rules apply. And while the organizations that manage DAF’s are public charities, you do not get the higher deduction for donating cash to your DAF. These new limits do not apply to gifts of appreciated stock.

If your assets are substantial enough that you can give more than your income this year, you won’t lose the deduction for the excess amount. You can use it next year, as has always been the case.
Required Minimum Distributions Waived in 2020 for Most Donors: Required minimum distributions (RMD) that would have started in 2020 do not have to start until 2021, including distributions from defined benefit pension plans and 457 plans. This change will dampen somewhat the incentive for a donor to make a qualified charitable distribution (QCD) from their IRA in 2020. Even so, making a QCD this year will still allow itemizers and non-itemizers alike to direct up to $100,000 from their IRA to charities in a tax efficient manner.

The takeaway - donors directing a QCD to charity this year (up to $100,000 per individual) will still reduce their taxable IRA balance. This allows all taxpayers, itemizers and non-itemizers alike, to direct gifts from their IRA to charities in a tax efficient manner.

Source: National Council of Nonprofits

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