The past several months have been as challenging a time as any we've faced in our lifetimes, with feelings of anxiety, stress, and great uncertainty pervading our foremost thoughts while we pause normal life to experience the "new normal" designed to combat the spread of COVID-19. The pandemic has taken its toll on the health and wellbeing of far too many, the ramifications of which may be felt for quite some time.

As we chart a new path from uncertainty to greater financial security, there are a few new options to consider in balancing long-term financial goals with near-term objectives while also preserving charitable giving priorities. Our friends at Gonser Gerber have put together an overview of the new incentives that were made available with the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and information on how this might impact your plans in 2020 and beyond.

What is the CARES Act?

The CARES Act is a $2.2 trillion economic stimulus package that was signed into law on March 27, 2020. The Act is far-reaching and contains many different elements aimed at providing economic relief to individuals and businesses facing hardship or economic ruin as a result of the current pandemic. The Act sends direct payments to eligible taxpayers, expands unemployment insurance, provides loans with "forgivable" terms to certain small businesses and non-profits, and gives borrowers of home and student loans more time to make payments.

It also provides new charitable giving incentives. The inclusion of an expanded charitable giving incentive is an acknowledgement by our legislative leaders that philanthropy can make a true difference during a crisis time period, and the work of institutions like Phi Mu Foundation are considered essential. It is the first time that Congress has passed this type of giving incentive in response to a disaster or national emergency. And therefore, it is worth careful review and consideration as you plan your potential giving in 2020.

How does the CARES Act impact philanthropic giving in 2020?

There are three ways in which philanthropy is impacted by the CARES Act.

1. New Charitable Gift Deduction Available

The CARES Act provides a new charitable-giving deduction that is available to those who choose the standard deduction method of filing their taxes (estimated to be 90% of taxpayers). The Act provides a deduction up to $300 per taxpayer in charitable cash contributions as an "above the line" adjustment to income, thereby reducing one's

Adjusted Gross Income (AGI), and as a result reducing overall taxable income. To qualify, you must give a donation between January 1 and December 31, 2020. Donations must be made to a qualifying public charity; donor-advised funds (DAF) and private foundations do not qualify for this new deduction.

2. **Expanded Charitable Deduction Limits in 2020**

   The CARES Act also provides expanded charitable deduction limits for businesses and individuals who itemize deductions on their tax returns.

   In 2020, individuals can deduct cash contributions to qualifying organizations for up to 100% of their adjusted gross income. This is expanded from the previous limit of 60% of AGI. Businesses may deduct up to 25% of taxable income, up from the previous limit of 10%.

   It should be noted that this expanded deduction is for cash gifts that are provided to a public charity. If you choose to give cash to your private foundation or donor-advised fund, the old deduction rules still apply. In addition, the expanded charitable deduction limit does not apply to gifts of appreciated stock.

   If your assets are substantial enough that you can give more than your adjusted gross income this year, you won't lose that deduction for the excess amount. As it was under the previous deduction rules, you can still use the excess amount as a deduction when you file your taxes next year.

3. **Suspension of Required Minimum Distributions in 2020**

   Giving directly from one's IRA has been an attractive way to make a significant charitable gift. An IRA owner generally must take a required minimum distribution (RMD) from a retirement account when that owner reaches a certain age (either 70 ½ or 72 years of age). A gift given directly from an IRA, other than a SEP or SIMPLE IRA, to a qualified charity serves as a qualified charitable distribution (QCD). Amounts distributed as a QCD can be counted toward satisfying your RMD for the year, up to a maximum of $100,000.

   With the passing of the CARES Act, RMDs have been waived for 2020 to help retirement accounts recover from potential stock market losses. This includes distributions from IRAs as well as 401(k), 403(b) and 457(b) plans.

   Although this change may be seen by some as a disincentive to use one's IRA to make a charitable gift, it should be noted that even with the waiving of RMDs for one year, donors directing a QCD to charity in 2020 (up to $100,000 per individual) will still be able to reduce their taxable IRA balance. This allows all taxpayers – itemizers and non-itemizers alike – to direct gifts from their IRA to charities of their choice in a tax efficient manner.

What should I keep in mind in regard to philanthropic giving in 2020?

The new charitable giving incentives recently made available via the CARES Act should certainly be taken into account as you consider your financial and charitable giving objectives in 2020. There are several things to consider.

First, the above-the-line deduction of $300 cash contributions per taxpayer allows a tax deduction those who would not otherwise be able to benefit from these contributions. When gifts of up to this amount are given, it correspondingly reduces your taxable income by that amount. For some, this may not be viewed as a large amount, but it is $300 you won't have to pay taxes on. So for those inclined to give cash gifts in 2020, this provides a good incentive to do so.

Second, the expansion of charitable deduction limitations to 100% of AGI opens the possibility of transformative giving in 2020. If you are in a position to do so, your gift will be fully tax deductible for up to 100% of your taxable income in 2020 – or even beyond 2020 if you opt to carry over gift amounts beyond your income for the next 1-5 years. While this incentive may not be feasible for those who have been hit hard by the pandemic, it provides a tax efficient way of making a significant impact for those in a more favorable financial position.

Both of these incentives apply to cash gifts given in 2020. This makes sense as these incentives are part of an overall bill aimed at stimulating the U.S. economy. In fulfilling philanthropic objectives, cash gifts should be foremost on donors' minds as a primary method of giving in 2020. But that doesn't mean there aren't other gift-giving methods to consider.

As noted previously, the CARES Act suspended required minimum distributions (RMDs) from most qualified retirement plans, including IRAs. This could reduce the incentive for some to make charitable distributions from IRAs in 2020. (The IRA charitable rollover remains available in 2020.) For example, a taxpayer with an RMD of $100,000 who usually makes $50,000 in IRA charitable rollover gifts each December may choose to make no IRA charitable gift in 2020 and instead make $50,000 rollover gifts in January and December 2021 to satisfy the RMD requirement in 2021.

On the other hand, because of the 100% charitable gift deduction allowed for cash gifts to certain charities this year, a taxpayer who has attained age 59 ½ can in effect make a tax-free rollover of any amount to a charity in 2020. This can be accomplished by making a taxable withdrawal from an IRA that will be included in income, and then giving the cash to a public charity, thereby offsetting the income completely by the charitable deduction. For all years other than 2020, the only way to transfer a large IRA to charity without triggering income tax was generally at death by beneficiary designation. But in 2020 the IRA can sell its assets and distribute the cash proceeds to the IRA holder, who can then give them to charity and deduct them in any amount, up to 100% of AGI (or beyond if the excess is carried over to subsequent years).

In Conclusion

With the recent enactment of the CARES Act, there are several new giving incentives to consider in 2020 – for cash gifts large and small. All who are inclined to give in 2020 and do not itemize their deductions should take advantage of the $300 charitable gift deduction. And those who are in a position to make a larger gift have a favorable tax benefit of doing so. As always, we encourage you to consult an attorney or other professional advisor experienced in estate planning and tax law for more complex considerations.

We are happy to meet with you and discuss how your giving in 2020 can be maximized by the recent passage of the CARES Act. If we can help in any way, please contact us by returning the enclosed card or by contacting us via phone or email (contact information is included below). There is no obligation. Information shared or questions asked will be held in strictest confidence.

If you have questions or would like to talk further about the charitable incentives through the CARES Act, please contact Foundation Major Gifts Director Mandi Young at myoung@phimu.org.