CARES Act: Incentivizing charitable contributions

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On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Pub. L. 116-136. While the CARES Act includes many widely-publicized governmental programs that directly assist businesses and individuals, the CARES Act also includes a number of tax provisions that incentivize increased charitable giving. These tax provisions should push critical resources to private organizations on the frontlines of the coronavirus pandemic and growing economic crisis, such as nonprofit hospitals and foodbanks.

Above-the-line deduction

Prior to the CARES Act, charitable contributions only provided a tax benefit to individuals and couples who itemized their deductions. The CARES Act changes this by creating a new "above-the-line" charitable deduction for individuals making qualified charitable contributions. The new deduction, accomplished with an amendment to the definition of "adjusted gross income," is limited to a maximum of $300 per individual and may only be claimed by taxpayers taking the standard deduction.

To qualify for the new above-the-line charitable deduction, a contribution must:

- Be made in cash
- Otherwise qualify for a charitable deduction under section 170 of the Internal Revenue Code without regard to percentage limitations

- Be made to an organization described in section 170(b)(1)(A) of the Code but excluding supporting organizations or donor advised funds

The new deduction will apply permanently to all tax years beginning after December 31, 2019.

Temporary increase on cash contribution limitations

For individuals who itemize their deductions and for corporations, the CARES Act temporarily relaxes limitations on charitable deductions under section 170 of the Code. With respect to cash contributions to organizations described in section 170(b)(1)(A), individuals generally cannot take deductions that exceed 60 percent of their adjusted gross income. For corporations, the amount of deductions generally cannot exceed 10 percent of taxable income.

The CARES Act adjusts these limitations for “qualifying contributions.” Under the CARES Act, individuals can take deductions up to 100 percent of their adjusted gross income and corporations up to 25 percent of taxable income. “Qualifying contributions” include contributions to section 170(b)(1)(A) organizations (excluding supporting organizations and donor advised funds) made during calendar year 2020. Additionally, taxpayers must affirmatively elect to take deductions under the increased limitations (as opposed to taking a carryover deduction into future years).

Temporary increase on food inventory contribution limitations

In addition to incentivizing cash contributions, the CARES Act also incentivizes contributions of food to charitable organizations. Under current law, businesses are generally allowed to take a deduction for “apparently wholesome” food inventory donated to charitable organizations solely for the care of ill, the needy or infants. Section 170 of the Code limits deductions for food inventory to 15 percent of a corporation’s taxable income and 15 percent of aggregate net income in the case of all other taxpayers. However, for contributions of food made during 2020, the CARES Act increases the limitation on deductions to 25 percent of taxable income or 25 percent aggregate net income, as applicable.

Conclusion

While providing significant direct governmental assistance to businesses and individuals, the CARES Act also acknowledges the importance of private charity in combatting coronavirus. As a result, the CARES Act should help local charities raise additional funds at a time when their services are in great demand.

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