

The Value of Charitable Giving

By Bruce A. Desrosiers, CPA, MST, Partner

We all look for ways to give back to our communities during the holiday season. Making contributions to your favorite charity is an easy way to accomplish that – whether your charity is your local church or a public charity, such as the United Way or Salvation Army, or even your alma mater. There is an added benefit to making these contributions: In many instances you can reduce your tax bill at the same time.

Many Charitable Organizations

Generally speaking and subject to limits, you can take a deduction for contributions made to charitable organizations that are recognized by the Internal Revenue Service. These organizations typically provide public benefit in the form of services that contribute to the public good. They support food delivery to the hungry, scientific research for the mitigation of disease, educational awareness in various areas of public need, such as science, literacy, consumer safety and much needed disaster assistance during catastrophic events such as pandemics, wildfires and hurricanes.

Supporting education through contributions to scholarship-granting organizations or universities is another eligible deduction. You may even want to support an organization where you volunteer, such as an animal shelter. These organizations have had a difficult year as their public fundraising events have been curtailed or even cancelled altogether.

TCJA Limits Tax Benefit of Charitable Contributions

Traditionally, you have had to itemize your deductions to get a benefit on your tax return for your contribution. Since the Tax Cut and Jobs Act (TCJA) passed in December 2017 increased the standard deduction amount and severely limited state and local tax deductions, many people no longer itemize deductions on their tax return.

New Opportunities for Tax Savings

There are a few changes in recent tax bills that may create an opportunity for you to benefit in 2020 from your contribution by saving taxes at the same time. We want to make sure you are aware of the changes especially if they might encourage you to be more charitable before year-end.

CARES (Coronavirus Aid, Relief, and Economic Security) Act

The CARES Act allows an individual who does not itemize deductions on their 2020 federal income tax return to deduct up to \$300 in charitable contributions made to churches, nonprofit schools, nonprofit medical institutions, and other organizations as an above-the-line deduction in calculating adjusted gross income (AGI).

States that use federal AGI as a starting point may also wind up allowing this above-the-line deduction as well. Rhode Island is currently one of those states that have indicated in a newsletter to tax professionals that they anticipate this to be the result. State tax rules are complex; you should consult your personal tax advisor to see if your resident state will allow the deduction from AGI by following the federal deduction rules.

Waiver of Adjusted Gross Income(AGI) Limitations

For cash contributions: The percentage limits for charitable contributions for individuals are temporarily waived for cash contributions made during calendar year 2020 in response to the COVID-19 crisis. The deduction for qualified contributions is limited to 100% of an individual's contribution base. Excess contributions may be carried over to the succeeding 5 (five) tax years, subject to the 60% contribution limit for cash contributions. Example: If you were to earn \$100,000 from work and you also had other income of

\$10,000, your Adjusted Gross Income (AGI) would be your contribution base for 2020. You could in this case get a deduction of up to \$110,000 for cash contributions you made. You would have reduced your taxable income to zero. Careful planning should be considered before doing this when you have other itemized deductions so your charitable gift will be efficient in reducing your taxes. You wouldn't want to waste your other deductible items, such as taxes and mortgage interest.

Increased corporate limits: The percentage limits for charitable contributions for corporations is increased from 10% to 25% for cash contributions made during calendar year 2020. The higher deduction limit of 25% applies to food inventory contributions by a corporation as well. A corporation may carry forward for 5 (five) years any qualifying contribution that exceeds the 25% ceiling for the tax year of the contribution.

Qualified disaster contributions: A similar provision removing the AGI limitations for individuals is available for Qualified Disaster Contributions made during 2018 and through February 19, 2020. The contributions that are eligible for the AGI Limitation Waivers discussed above must be in cash, whereas donations of appreciated capital gain property continue to be subject to 30% AGI limitations (20% for non-operating foundations).

Quid Pro Quo

When making a contribution over \$75 for which you get something in exchange (other than some trivial item) quid pro quo rules govern. You will need to get a receipt from the charity indicating the value of the item or service. Contribution deductions are reduced by the value of items or services you receive in exchange for the payment. Buying a ticket to a gala event for \$250, where the meal is valued at \$50, would result in a potential deduction of \$200.

Stock Donation

Donating appreciated stock that you have had for more than a year before the end of the year can give you a deduction for the fair market value of the stock without having to pay taxes on the unrealized gains. The charity would need a way to receive the stock from your broker.

Planning and Documentation

Planning can be critical if you intend to make significant contributions by the end of 2020 or early in 2021. 'Tis the season to be charitable and the new rules make it more inviting for many people.

When you are thinking about charitable giving, make sure you have what you need for your tax preparer. The importance of documentation can't be overstated. For cash contributions up to \$250, a bank record, such as a cancelled check or credit card statement, will be enough to claim the deduction. Contributions of \$250 or more must be acknowledged in writing by the charity, and you must have this acknowledgement before you file your return claiming the deduction.

Contact Us

If you are thinking of significant contributions and need assistance planning out the timing or amounts given the potential for higher tax rates in the future or changing income outlook in 2021, please reach out to your PKF O'Connor Davies contact for assistance or Bruce A. Desrosiers, CPA, MST, Partner at bdesrosiers@pkfod.com. We would be happy to coordinate your plans with your investment team and estate planners, as needed.

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