Charitable Contribution Reminders

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As 2021 sees the COVID-19 pandemic continue, the work of charitable organizations continues to be very important. The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) provided many charitable contribution deduction incentives to continue to encourage charitable giving. The *2021 Consolidated Appropriations Act* (CAA) extended and increased many of the 2020 CARES Act provisions.

CARES Act Changes Updated by the CAA

The CARES Act's first major charitable benefit was allowing taxpayers who may not itemize to deduct up to $300 of cash donations while still taking the standard deduction. For 2021, this benefit is still allowed and enhanced by allowing $600 for joint filers.

Prior to the enactment of the CARES Act in 2020, taxpayers were able to deduct cash contributions to public charities up to 60 percent of their adjusted gross income (AGI). The CARES Act removed this limit and allowed taxpayers to deduct up to 100 percent of their AGI. This benefit has been extended into 2021. The limit to private foundations and donor-advised funds (DAF) remains at 60 percent of AGI.

Lastly, the CARES Act changed the taxable income limitation for corporations and individuals who may be donating items such as food inventory. Prior to 2020, corporations could deduct charitable contributions up to 10 percent of taxable income. The CARES Act increased this and the limit for individuals contributing food inventory to charities to 25 percent of taxable income. The CAA carried this limit into 2021.

Charitable Strategies & Considerations

In addition to taking advantage of the benefits provided by the CARES Act and CAA, below are some other charitable planning strategies related to charitable contributions:

- **Qualified Charitable Distributions (QCD) from IRAs** – With the return of required minimum distributions for 2021, the ability to use QCDs still remains. A QCD is a charitable contribution made directly from the IRA to the desired charity. It satisfies the requirement to take distributions from the IRA (up to $100,000 annually) but is not taxable income to the IRA holder. This can be a beneficial strategy for retirees who are not able to itemize deductions because while QCDs allow for the ability to not recognize income, there is no separate itemized deduction.
- **Contributions to DAFs** – DAFs have been popular tax planning vehicles. The DAF allows for a taxpayer to make a charitable contribution to the fund and take a deduction in the year of contribution. The fund can accept gifts of cash or appreciated securities. Under current laws, the fund can then make contributions to qualified charities in a future year. However, the recently proposed Accelerating Charitable Efforts Act (ACE Act) may change the rules for DAFs. Please see our latest **BKD Thoughtware®** article on the proposed changes under the ACE Act.
- **Charitable Trusts** – Charitable remainder trusts can still be a great way for you to spread realization of capital gains on highly appreciated assets over several years while still retaining access to the funds from the sale of those assets. These types of trusts also provide a steady source of annual income, which may be something to help supplement income in retirement.

- **Gifts of Appreciated Securities** – With the strength of the market during the second half of 2020 and to date in 2021, many taxpayers are holding securities that have appreciated in value. Gifting those securities to qualified charities allows the taxpayer to take a deduction at the fair market value on the date of the gift and avoid recognizing the gain that would have occurred if the security had been sold. The deduction for these types of gifts is capped at 30 percent of the taxpayer's AGI, but any unused deduction can carry forward for five years.
- **Tax Rate Considerations** – With the change in administrations at the beginning of 2021, there has been a focus on what tax rate changes and other tax law changes may be coming. In general, taxpayers aiming to manage their tax bill via various charitable contribution strategies need to be aware of their current and potential tax rates to assess the best timing for gifts.

Charitable contributions can be an important tax planning strategy to an overall wealth plan. For more information on tax planning or wealth planning through charitable giving, reach out to your **BKD Trusted Advisor**™ or submit the Contact Us form below.

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