How the CARES Act May Affect Gift Planning in 2020

While debate (or delay) continues in Washington, D.C., with regard to a sequel piece of federal legislation, I thought it might be helpful to review several of the key elements of the Coronavirus Aid, Relief and Economic Security Act (CARES), passed into law last March.

Recognizing that financial support to nonprofit organizations is quite likely to suffer in the current economic environment – at a time when additional charitable support is greatly needed – the CARES Act established several provisions designed to encourage charitable giving. Here are three elements related to individual philanthropy:

Charitable Deduction Limits Modified for Individuals

For 2020, the CARES Act allows donors to deduct cash gifts to public charities up to 100% of their adjusted gross income (AGI), increased from 60 percent.

While contributions to a Donor Advised Fund (DAF) or Supporting Organization (SO) do not qualify for the 100% deduction, a donor could make a cash contribution of 60 percent of their AGI to a DAF or SO and also make a 40 percent of AGI contribution to other charities.

Waiver of Retirement Plan Penalties for Purposes Related to the Coronavirus

If you withdraw money (not exceeding $100,000) between January 1, 2020 and December 30, 2020 from eligible retirement plans following diagnosis of you, your spouse, or your dependents with coronavirus; or following your suffering certain adverse financial consequences stemming from the impact of the epidemic:

- the 10% tax penalty normally applicable to persons under the age of 59 1/2 will not apply;
- taxation of the distribution can be spread over three years;
- during those three years you can add the amount you withdraw to retirement plans - to which rollovers could be made later - without regard to contribution limits, reducing the tax occurring over those three years.

This allows retirement funds to be used for an immediate need, while enabling retirement accounts to recover.

Required Minimum Distribution Waived

The Required Minimum Distribution (RMD) has been waived for Individual Retirement Account (IRA) and other qualified retirement plan owners for the 2020 tax year. This provision will permit IRA and other qualified retirement plan owners to retain funds in their IRAs. Because the markets declined substantially after the current RMD was calculated on December 31, 2019, Congress determined that it was beneficial to waive the RMD for 2020. However, donors can still choose to use IRA funds to make a qualified charitable distribution.

If you have questions or issues you'd like to discuss, please contact Linda Sweeney, Senior Director of Philanthropic Planning, at 415.464.2507 or lsweeney@marincf.org. As always, we also encourage you to consult your private professional advisors to explore the particular aspects of your unique circumstances.

Thomas Peters, Ph.D., President & CEO, Marin Community Foundation