CARES Act Provides Tax Incentives for Charitable Giving in 2020

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides a wide array of temporary tax benefits designed to encourage charitable giving during the 2020 calendar year.

The most significant tax benefit is the increase in the limitations for certain charitable donations made by individuals and businesses known as "qualified contributions" to be deductible from U.S. federal income taxes.

"Qualified contributions" are donations made: (i) in cash; (ii) during the 2020 calendar year (*i.e.*, regardless of whether the donor has elected a tax year other than the calendar year); and (iii) to charitable organizations other than supporting organizations and donor-advised funds. In addition, the donor must elect to receive the increased deduction when tax returns are filed; for entities taxed as partnerships or S corporations, the election must be made separately by each partner or shareholder.

Business entities, which are generally limited to deducting charitable contributions of up to 10% of their taxable income, are permitted by the CARES Act to deduct qualified contributions of up to 25% of their taxable income, less the amount of their other charitable contributions (which are still limited to 10% of their taxable income). If the aggregate amount of qualified contributions made by a business entity exceeds the 25% limit, it may deduct the amount of its qualified contributions exceeding the 25% limit over the next five years.

Individuals who do not itemize deductions are entitled to deduct up to $300 of qualified contributions, which is added onto their standard deduction.

Individuals who itemize deductions are generally limited to deducting 60% of their adjusted gross income. However, for the 2020 calendar year, individuals are permitted to deduct qualified contributions of up to 100% of their adjusted gross income, less the amount of any of their other charitable contributions (which are still limited to 60% of their adjusted gross income).

Businesses involved in the production or sale of food (including restaurants, growers, processors, wholesalers, distributors and grocers) are generally able to deduct up to 15% of their aggregate net income for charitable contributions of food inventory to charitable organizations. However, for donations made during the 2020 calendar year, the limitation is increased to 25% of their aggregate net income. The amount of such deduction is limited to the sum of their tax basis in the donated food inventory plus half of the gain that would have been realized if the donated food had been sold.

Importantly, these tax benefits of the CARES Act are limited to the calculation of federal income taxes, and they do not apply to any other type of federal tax or to any state or local taxes.