

Charitable Giving

New Tax Incentives for Individuals

It's a new year with new rules for charitable contributions. I wanted to put together an outline of what is new, and also welcome a conversation with anyone who would like to make sure they are maximizing their contributions in 2021.

The **tax deduction for charitable contributions** was established in 1917. This provision allows taxpayers to deduct contributions to nonprofits and charities from their taxable income. ¹

The policy rationale for allowing charitable contributions to reduce taxable income is to provide an incentive for citizens to support worthy causes that benefit society. Changes over the years have primarily focused on what percentage of Adjusted Gross Income (AGI) can be deducted as an itemized deduction each year.

Changes to the rules for charitable contribution deductions were part of the CARES Act passed March 27, 2020 that affected tax year 2020 and part of the Consolidated Appropriations Act (CAA), 2021² signed into law December 27, 2020 that affects tax year 2021.

New for 2021

The changes to 2021 charitable contribution deductions come in two forms: 1) changes affecting individuals who take the standard deduction and 2) changes affecting individuals who itemize deductions on their tax returns.

Cash Contributions For Individuals Who Do Not Itemize Deductions

Due to the higher standard deduction amounts that came in with the 2017 Tax Cuts and Jobs Act, many individuals find they have a better income tax outcome by using the standard deduction rather than itemizing deductions. To encourage continued charitable giving, a **permanent** change was made to tax law allowing individuals, who do not itemize, to claim a deduction for qualified charitable contributions in addition to taking a standard deduction. Up to \$300 of cash donations for a Single taxpayer and up to \$600 for Married Filing Joint taxpayers can be deducted in 2021. For 2020, the maximum was \$300 regardless of filing status.

To be considered qualified, the contribution must be

- Paid in cash³

¹ [The Charitable Deduction for Individuals: A Brief Legislative History \(fas.org\)](#)

² Consolidated Appropriations Act, 2021 [untitled \(house.gov\)](#)

³ Cash contributions include payments made by cash, check, electronic funds transfer, online payment service, debit card, credit card, payroll deduction, or a transfer of a gift card redeemable for cash. IRS Publication 526

- Paid to a qualifying organization

Contributions that do not qualify

- Contributions carried forward from prior years
- Contributions of non-cash property
- Contributions for the establishment of a new or maintenance of an existing, donor advised fund

There is a penalty for overstating the deduction so it is important to keep documentation provided by the charities you donate to. This deduction is not available to taxpayers who do itemize.

Cash Contributions For Individuals Who **Do** Itemize Deductions

The CARES Act (March, 2020) and the Consolidated Appropriations Act (CAA), 2021 (December, 2020), **temporarily** increased the limit on the amount of cash charitable contributions that are deductible for 2020 and 2021. Prior to this change, cash charitable contributions were limited to 60% of the individual's adjusted gross income. For 2020 and 2021, cash charitable contribution deduction can be up to 100% of the individual's adjusted gross income. As before, contributions that exceed the limit can be carried over for up to the 5 following years.

To qualify for the up to 100% limit, the contribution must be:

- Paid in cash
- Paid to a qualifying organization
- Paid during the calendar year 2020 or 2021

Contributions that do not qualify

- Contributions carried forward from prior years
- Contributions of non-cash property
- Contributions for the establishment of a new or maintenance of an existing, donor advised fund

Taxpayers may still claim non-cash contributions as a deduction, subject to the normal limits.

General Rules For Deductibility of Charitable Contributions⁴

In order to qualify as a charitable contribution for tax deductibility purposes, the charity must have been granted tax exempt status by the IRS. The organization's website usually states whether it qualifies. The IRS also has a search tool that can be used to determine whether an organization qualifies. The link to the search tool is: [Tax Exempt Organization Search \(irs.gov\)](#) or go IRS.gov/TEOS.

⁴ IRS Publication 526, Charitable Contributions

The rules for how much can be deducted and how the contribution must be documented are complex and can be found in IRS Publication 526 available at [IRS.gov](https://www.irs.gov). Below are the common rules:

- Non-cash contributions are generally limited to 50% of AGI
- Certain capital gain property contributions are limited to 30% of AGI

Cash Contributions

All cash contributions require documentation in the form of one of the following:

1. A bank record that shows the name of the qualified organization, the date of the contribution, and the amount of the contribution. Bank records may include:
 - a. A canceled check
 - b. A bank or credit union statement
 - c. A credit card statement
 - d. An electronic fund transfer receipt
 - e. A scanned image of both sides of a canceled check obtained from a bank or credit union website
2. A receipt (or a letter or other written communication such as an email) from the qualified organization showing the name of the organization, the date of the contribution, and the amount of the contribution.
3. The payroll deduction records described next

Cash Contributions of \$250 or more to a single charity on a single date must be substantiated by a written acknowledgement from the charity.

Noncash Charitable Contributions

Except in specific circumstances, the contributed value of property is the lower of Fair Market Value (FMV) at the time of the contribution or the cost basis of the property.

Noncash contribution deductions of \$250 or less require a receipt from the charity.

Noncash contribution deductions of at least \$250, but not more than \$500, require a written acknowledgment of your contribution from the qualified organization.

Noncash contribution deductions over \$500, but not over \$5,000, require completing Form 8283 and a written acknowledgment from the qualified organization.

Noncash contribution deductions of over \$5,000 require completing Form 8283, a written acknowledgment, and a qualified written appraisal of the donated property from a qualified appraiser.

Congress continues to incentivize people to donate to their favorite charity, and with various changes to the incentives offered each year, it is important to have an awareness of these tax breaks and rules. I'm passionate about making a positive impact on others and the community. If you want to further discuss the benefits of charitable giving, please do not hesitate to reach out to me or your financial advisor.