DONATING TO NON-PROFITS IN WAKE OF FEDERAL TAX LAW CHANGES

As you may know, the 2020 standard deduction (SD) for the Federal joint filer income tax is $24,800 or $27,400 if both filers are aged 65 or over ($26,100 if just one filer aged 65 or older). For single filers, the new SD is $12,400 or $13,700 if 65 or older.

In addition to the standard deduction, the Coronavirus Relief and Economic Security Act (CARES Act) includes a provision that allows 2020 taxpayers who do NOT itemize to reduce their taxable income by deducting up to $300 ($600 for a married couple filing jointly) per year in charitable contributions in addition to the standard deduction.

The $300 ($600 for married couples filing jointly) deduction is allowed IN ADDITION to the standard deduction. To qualify for this special provision of the 2020 CARES Act, the contributions MUST be in cash AND must be given to a given to a 501(c)(3) public charity. Fearrington Cares is a qualified 501(c)(3) charity.

Taxpayers do not have to file Schedule A (itemize) to claim the deduction. Instead taxpayers who make such contributions can list it as an adjustment to income on Schedule 1 of Form 1040 and then deduct it from their gross income (along with all other adjustments to income) on the first page of their Form 1040.

There is no requirement that taxpayers provide any documentation for their contributions with their tax returns. But, the IRS requires that taxpayers keep a written record of all cash contributions. For cash donations under $250, donors can use a bank statement or other documentation that substantiates that the payment was made. For all cash donations above $250, the donor must have a document or receipt from the nonprofit. Fearrington Cares will provide receipts as required to those who make such qualified contributions to the organization in 2020.

Normally, taxpayers who DO ITEMIZE their deductions may only deduct charitable contributions up to only 60% of their adjusted gross income in any given tax year. However, for 2020 only, the CARES Act allows itemizers to deduct contributions up to 100% of their Adjusted Gross Income (AGI). Thus, for example, if your AGI is $100,000, you may deduct $100,000 in charitable contributions and wipe out your income tax liability entirely. Deductions for charitable contributions beyond the special $300/$600 amounts listed above need not be in cash.

Donating appreciated property to a 501(c)(3) non-profit.

- If, for example, you donate mutual fund shares that have increased in value, generally you do not have to pay any tax on that increase (capital gain) when you donate them to a non- profit. This exemption from the gains tax can benefit you even if you do not itemize.
- If you do itemize, your deduction equals the appreciated value.
- Some households prefer donating appreciated property so as avoid using cash income or savings instead.

Using eligible IRAs to make donations in addition to standard deduction.

Since 2006 Federal tax law has allowed **some** households who have Individual Retirement Accounts (IRAs) to directly transfer cash or securities from their IRAs to 501(c)(3) non-profits without having to include those transfers in their household income. These are known as Qualified Charitable Donations (QCDs).

- The IRA owner must be subject to the "required minimum distribution" or RMD rule. This rule applies when the owner is 70 and one-half years old. It requires the owner to take into his/her income a minimum amount each year from his/her IRA. **Please note that the RMD requirements have been waived by the CARES Act for the 2020 tax year so no penalty is attached to those who do not wish to take the RMD for 2020.** (The RMD rule also applies to other like tax-qualified retirement savings, but the direct transfer QCD option only applies to IRAs. See below.)
- The IRA owner instructs its administrator (often mutual fund manager or bank) to directly transfer xx$$ amounts to one or more non-profits. These amounts can exceed the owner's annual RMD amount. .
- In addition, the IRA owner can use the new higher SD on his/her tax return unreduced by these transfers. The result is SD plus non-taxable donations.
- But it is essential that the IRA transfers do not pass through the taxpayer's personal checking account or like.
- If you have kept your tax-qualified retirement savings in a 401/k, 403/b, 457, TSP, SEP or other employer-based defined contribution account, you may be able to directly transfer all or some of those savings into a rollover IRA and then make direct QCD transfers from the rollover IRA to non-profits as above.

Donor Advised Funds and "bunching."

Households sometimes find it advantageous to "bunch" itemized deductions -- especially for contributions to eligible non-profits -- in one year and take the standard deduction the next year. The new Standard Deductions (SD) have much higher thresholds for bunching contributions in any given year. Donor Assisted Funds (DAFs) may help you exceed your SD in a given year with allowable contributions. These funds also help assure that the non-profit recipients have more even, predictable annual incomes.

A detailed discussion of DAF is well beyond the scope of this advisory. If you are interested in pursuing Donor Assisted Funds and bunching to maximize the tax benefits of making charitable contributions, you should contact your financial institution and/or your tax advisor.

All the major investment companies – Vanguard, Fidelity, Schwab, etc. – and banks – including SunTrust (now Truist), First Citizens, Bank of America, etc. -- seem equipped to help customers make direct QCD transfers from IRAs to non-profits and/or to create DAFs and execute donations from them. You, however, may have to probe beyond the local office for help.

Fearrington Cares provides the above for informational purposes only and urges each taxpayer to consult with his/her tax advisor about any and all tax questions he/she may have relative to each persons 2020 Federal Income tax obligations.