# Make Your Year-End Charitable Gifts to Take Advantage of Expanded Tax Benefits

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Because of the hardships from the COVID-19 pandemic and several weather related events, the demand on charitable organizations has increased significantly this year, increasing the need for charitable giving. Tax benefits to both individual and corporate donors for contributions made to charitable organizations have changed many times over the 100 years they have been in place. The latest changes came with the enactment of the Coronavirus Aid, Relief and Economic Security (CARES) Act. These temporary tax changes related to charitable contributions have been extended through the end of 2021 by the Taxpayer Certainty and Disaster Tax Relief Act of 2020. Deductions for charitable contributions made by individuals who take the standard deduction and those that itemize deductions as well as charitable contributions made by corporations have been affected by the new legislation.

Before the new legislation, individual taxpayers who take the standard deduction, as opposed to itemizing deductions, could not claim charitable contribution deductions. The new legislation now allows individuals taking the standard deduction to claim a deduction towards adjusted gross income of up to $300 for single individuals, or up to a $600 for married individuals filing jointly, for cash contributions made to eligible charitable organizations in 2021.

Individual taxpayers that itemize deductions before the new legislation could only claim a deduction for charitable contributions made to eligible charitable organizations in an amount ranging from 20% to 60% of adjusted gross income depending on the type of contribution and the charitable organization. With the new legislation, the adjusted gross income limit on the deduction was suspended through 2021. This means individual taxpayers that itemize deductions may fully deduct eligible cash contributions made in 2021 up to 100% of adjusted gross income. To take advantage of the higher deduction limit, individual taxpayers must make an election for its qualified cash contributions, and if such election is not made, the usual adjusted gross income limit (20%-60%) applies.

Cash contributions to most charitable organizations qualify for these new deduction benefits. However, cash contributions made to supporting organizations or to establish or maintain a donor advised fund do not qualify. A supporting organization is a charitable organization that carries out its exempt purposes by supporting other charitable organizations. A donor advised fund is a fund or account established with a charitable organization that allows the donor to advise the fund on how to distribute or invest amounts contributed by the donor and held in the fund. Other contributions that do not qualify for the new deduction benefits include cash contributions carried forward from a prior year and cash contributions to most private foundations and most cash contributions to charitable remainder trusts.

Contributions made by check, credit card or debit card are considered cash contributions as well as amounts incurred by an individual for unreimbursed out-of-pocket expenses incurred in connection with volunteer service to a qualifying charitable organization. However, cash contributions do not include the value of volunteer services, securities, household items or other property that may be given to a qualifying charitable organization.

Before the new legislation, the maximum deduction allowed for charitable contributions made by C-corporations was capped at 10% of a corporation's taxable income. The new legislation allows C-corporations to use an increased limit of 25% of taxable income for charitable contributions of cash made to eligible charitable organizations during the calendar year 2021. Like the increased limit for individuals taking itemized deductions, the increased limit will not automatically apply. C-corporations must make an election to use the increased corporate limit on a contribution-by-contribution basis.

Certain businesses that donate food inventory in 2021 may also be eligible for an increased deduction limit from 15% to 25%. Businesses that can take advantage of the increased limits are those that make food inventory contributions in 2021 to organizations caring for the sick, needy and infants. For C-corporations the increased limit is 25% of its taxable income. For sole proprietorships, partnerships and S-corporations, the limit is based on their aggregate net income for the year from all trades or businesses from which the contributions are made.

Another important part of the new legislation is an increase in the penalty for overstating the value of charitable contributions. Prior to the new legislation, the penalty for overstating the value of such contributions was 20% of the total deduction amount. Under the new legislation if the Internal Revenue Service determines that an individual has overstated its charitable tax deductions (or underpaid its tax liability), a penalty of 50% of the individual's total deduction amount may be assessed. Therefore, it is important to remember that special recordkeeping rules apply to any taxpayer claiming a deduction for charitable contributions. Typically this includes obtaining an acknowledgment letter from the charitable organization before filing a tax return and for cash contributions, keeping a copy of the cancelled check or credit card receipt. Good recordkeeping practices can assist taxpayers if the Internal Revenue Service questions any charitable contribution.

First and foremost charitable giving is about helping others which is needed now more than ever, so donors should focus on how and where they want to make their charitable gifts. Then, donors should consult with their tax professionals to maximize the benefits for themselves and the causes they care most about.