



THE CARES ACT: ESSENTIALS YOU SHOULD KNOW

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A QUICK WORD ABOUT TAX BENEFITS AS A DRIVER FOR/OF GIVING

- Virtually every charitable gift is made as a result of a unique mix of donor-specific motivators.
 - U.S. Trust Study of High Net Worth Individuals (Indiana University's Lilly Family School of Philanthropy, 2017):
 - Donors' main giving motivators are to make a difference and for personal satisfaction, with tax benefits sitting in 11th place on the list motivators.
 - Most donors insist they'd still give the same amount even if they received no income-tax deduction for charitable giving.
 - There's only been a 1% drop in charitable giving since the Tax Cuts and Jobs Act became law at the start of 2018 (Giving USA, 2019)
- **Tax incentives (like those in the "CARES" Act) are just the cherry on top of the charitable giving sundae.** That said, we're in unique times...and, while not at the top of the list, these incentives are still a secondary motivator you should keep in mind.

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THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT ("CARES") ACT

- The CARES Act was signed into law on March 27 and is an enormous piece of legislation. (At an estimated \$2.2 trillion, it's equivalent to about 10% of the United States' total GDP in 2019.)
- It impacts (among a laundry list of other items and topics):
 - Recovery rebates for individual taxpayers
 - Expanded unemployment insurance provisions and benefits
 - Student loan repayment deferrals
 - Emergency loans and guarantees for small businesses
 - **Charitable giving (primarily in four ways you should keep in mind during your donor work)**
- **It leaves in place 2017 tax reform's deduction limits for ticket and other benefits.**

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1) THE CARES ACT ELIMINATES THE AGI DEDUCTION LIMITATION ON 2020 CASH GIFTS

- Since the Tax Cuts and Jobs Act became law, a taxpayer can deduct the full amount of his/her charitable cash gifts as long as the deduction doesn't exceed 60% of his/her adjusted gross income ("AGI").
- The CARES Act temporarily changes those rules in 2020 (and only 2020) to allow a taxpayer to elect a 100% AGI deduction limitation for cash gifts (and cash gifts only – gifts of securities don't qualify here), with this limit reduced dollar-for-dollar by other itemized charitable deductions.

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1) THE CARES ACT ELIMINATES THE AGI DEDUCTION LIMITATION ON 2020 CASH GIFTS

- How this works in 2020 versus last (and next) year, visualized for hypothetical donor Kathryn Merteuil:

2019	2020
AGI: \$100K	AGI: \$100K
Cash Gifts to Your Organization: \$100K	Cash Gifts to Your Organization: \$100K
Maximum Allowable Deduction (60% of AGI): \$60K	Maximum Allowable Deduction (100% of AGI): \$100K
Taxable Federal Income: \$40K*	Taxable Federal Income: \$0**

**Tax Cuts and Jobs Act allowed a taxpayer to deduct the full amount of his/her charitable cash gifts as long as the deduction doesn't exceed 60% of his/her AGI. Here that amount would equal \$60K for Kathryn, and should would have \$40K in excess deduction that she could carry forward to the following tax year.*

***The CARES Act allows a taxpayer to elect a 100% AGI deduction limitation for cash gifts in 2020. Assuming Kathryn takes that election, she will have no taxable income in 2020 and thus owe no federal income tax when she files next calendar year.*

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1) THE CARES ACT ELIMINATES THE AGI DEDUCTION LIMITATION ON 2020 CASH GIFTS

- **What this means for your work:**
 - If a donor elects to use all of his/her available qualified deduction under this provision this year, he/she will pay no federal income tax for 2020, thus giving the donor a greater incentive to give.
 - If a donor has a multi-year pledge on the books, you might want to suggest he/she accelerate payment of the pledge balance (via cash) in 2020 if it can be afforded.
 - This election may not be the tax-wise choice for all donors; donors should be encouraged to consult with their respective advisors regarding the decision.

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2) THE CARES ACT ADDS ANOTHER DEDUCTION OPPORTUNITY FOR "STANDARD DEDUCTERS"

- The CARES Act creates an "above-the-line" adjustment to income that reduces a donor's AGI, thereby reducing taxable income.
- The adjustment is available for cash gifts (and cash gifts only) to public charities only and is limited to \$300 per "filing unit" in 2020 (and 2020 only).

Taxpayer Filing Single in 2019	Taxpayer Filing Single in 2020
Standard Deduction: \$12.2K	Standard Deduction: \$12.4K
Cash Gift to Your Organization: \$300	Cash Gift to Your Organization: \$300
"Above the Line" Adjustment: \$0	"Above the Line" Adjustment: \$300
Total Standard Deduction: \$12.2K	Total Standard Deduction: \$12.7K

- Please note this opportunity is not available for gifts to DAFs nor for cash deductions carried forward from previous years.

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2) THE CARES ACT ADDS ANOTHER DEDUCTION OPPORTUNITY FOR "STANDARD DEDUCTERS"

- **What this means for your work:**
 - The change might encourage the nearly 90% of taxpayers who do not itemize their deductions to make new or increased cash gifts in 2020.
 - You might want to explicitly mention this opportunity in some or all of your annual giving appeals – it's a tax-wise decision for many who take the standard deduction to give \$300 (or \$300 more) charitably this calendar year.

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3) THE CARES ACT WAIVES 2020 "RMD"s FOR MOST DONORS

- 2020 (and only 2020) required minimum distributions ("RMD"s) will not be required from IRAs, 401(k)s, 403(b)s and most other defined-contribution plans maintained by an employer for individuals (though they will still be required from defined-benefit pension plans and some 457 plans).
- RMDs that would have had to start in 2020 don't have to start until 2021 (including distributions from defined benefit pension plans and 457 plans).
- **What this means for your work:**
 - The waiver may decrease the incentive for IRA-holding donors to make an IRA Charitable Rollover Distribution until 2021.
 - Even though 2020 RMDs have been waived, the CARES Act didn't otherwise modify the law allowing tax-free IRA Charitable Rollover gifts for donors having reached age 70½. The Rollover remains a great charitable giving option, especially for donors who take the standard deduction on their taxes.

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4) THE CARES ACT INCREASES THE LIMIT ON DEDUCTIBLE GIFTS FROM CORPORATIONS

- The 2020 (and only 2020) taxable-income limit applying to cash (and only cash) charitable contributions by corporations has been increased from 10% to 25%. The usual 10% limit still applies to non-cash corporate charitable contributions, and those contributions reduce the 25% limit dollar-for-dollar.
- Qualified cash contributions in excess of the 25% limit can be carried forward for up to 5 years under the usual limits.
- The limitation on deductions for contributions of food inventory has also been increased for 2020 (and only 2020) from 15% to 25%.
- **What this means for your work:**
 - This change should encourage more corporate giving than would have otherwise occurred in 2020

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ONE MORE COVID-19 CHARITABLE-GIVING-RELATED ITEM TO KEEP IN MIND

- Governor Pritzker issued an executive order on March 26 permitting remote online notarization ("RON") for as long as his COVID-19-related disaster proclamation remains in effect.
 - Many other states have enacted similar orders.
 - There are a number of provisions that must be followed for these RONs to be valid (notaries know them).
- **What this means for your work:** A donor does not need to leave his or her home to have a document (like a will) notarized. These documents can continue to be finalized during the proclamation's effect.

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THANK YOU!

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