Why 2020 Is an Especially Good Year to Give

Existing tax laws, the CARES Act, and election year uncertainty make it wise to be generous now in support of extraordinary needs

by Kim Laughton—President, Schwab Charitable

Contributors:

Caleb Lund, JD
Managing Director of Charitable Strategies Group, Schwab Charitable

Hayden Adams, CPA, CFP®
Director of Tax and Financial Planning, Schwab Center for Financial Research

This year, we are living through a once-in-a-lifetime global pandemic, significant market volatility, and growing social concern and unrest. Despite these uncertain times, we are also witnessing truly historic levels of generosity from individuals who have significantly increased their giving to support those who have been most impacted by this challenging environment.

Schwab Charitable donors have stepped up and responded in remarkable ways. During the first half of 2020, we saw a 46% increase in dollars granted and a 44% increase in the number of grants to charities compared to the prior year. Other donor-advised funds have reported similar increases, and research has shown that giving from donor-advised funds tends to be resilient during economic downturns[1] because dollars have already been set aside for a charitable purpose.

In addition, even with the recent market volatility, the S&P 500® index has roughly doubled in the last eight years and existing tax laws continue to encourage giving, providing additional benefits for donors who give appreciated non-cash assets. Annual income tax deduction limits for gifts to public charities, including donor-advised funds, are 60% of Adjusted Gross Income (AGI) for contributions of cash, 30% of AGI for contributions of non-cash assets held more than one year, and 50% of AGI for blended contributions of cash and non-cash assets. Donation amounts in excess of these deduction limits may be carried over up to five tax years.

New tax incentives for charitable giving in 2020 came in March with passage of the Coronavirus Aid, Relief and Economic Security (CARES) Act. The law gives donors who plan to take the standard deduction the option to claim an above-the-line deduction of up to $300 for cash contributions to operating charities. The CARES Act also gives donors who will itemize deductions an option to elect a 100% of AGI deduction limit for cash donations, and deduction amounts above this limit may be carried over for up to five years.[2] With both options, the cash donations must be made directly to operating charities and cannot go to donor-advised funds, supporting organizations, or private foundations.[3]

August 20, 2020

SCHWAB CHARITABLE®

How to give more during these unprecedented times

While extraordinary needs will persist into 2021, the tax benefits of charitable giving may change after the presidential election, as the current administration and previous five administrations have overseen significant changes to the tax code. As donors contemplate how they might respond to the uncertainty of these unprecedented times during the remainder of 2020 and beyond, a few strategies are worth considering to help make charitable giving both tax-smart and high-impact.

Give appreciated non-cash assets

For those who itemize deductions, appreciated non-cash assets, such as stocks, ETFs and mutual funds held more than one year, may offer an additional tax benefit in comparison to cash donations. Beyond claiming a deduction for the fair market value of an asset, donors can potentially eliminate the capital gains tax they would incur if they sold the asset and donated the cash proceeds. This can mean even more going to charity and less to taxes, as shown in the example below.

Original cost (cost basis) of stock: **$5,000**

Federal long-term capital gains tax rate: **15%**

Fair market value of stock:

$50,000

	Option 1: Sell stock and then donate after-tax proceeds	vs.	**Option 2:** Contribute stock directly to Schwab Charitable	
Long-term capital gains taxes paid	$6,750		$0	
Charitable contribution and tax deduction	$43,250	vs.	$50,000	Additional amount available to grant to charities: **$6,750**
Tax savings	$3,630		$12,000	Additional amount saved on taxes: **$8,370**

This hypothetical example is only for illustrative purposes. The example does not take into account any state or local taxes or the Medicare net investment income surtax. The tax savings shown is the tax deduction, multiplied by the donor's income tax rate (24% in this example), minus the long-term capital gains taxes paid.

Take advantage of charitable deduction rules and bunching opportunities

1. **Give up to and beyond existing limits and carry over the excess deduction**

   Donors who wish to itemize deductions for non-cash assets, cash, or a combination of both may choose to give beyond the deduction limit and carry over the excess deduction for up to five years.

2. **Bunch contributions**

   Some donors may find that the total of their itemized deductions is just below the level of the standard deduction. They may find it beneficial to bunch 2020 and 2021 charitable contributions into one year (2020), itemize their deductions on 2020 taxes, and take the standard deduction on 2021 taxes. In addition to achieving a large charitable impact in 2020, this strategy could produce a larger two-year deduction than two separate years of itemized charitable deductions, depending on income level, tax filing status, and giving amounts each year.

   Donors who bunched two or more years of contributions in 2019 and will subsequently take the standard deduction for 2020 may also consider taking the CARES Act's $300 deduction for cash donations made to operating charities.[3]

Give more by looking at retirement assets

1. **Make a Qualified Charitable Distribution (QCD) of IRA assets.**

   Whether itemizing or claiming the standard deduction, individuals age 70½ and older can direct up to $100,000 per year tax-free from their Individual Retirement Accounts (IRAs) to operating charities through QCDs.[3] By reducing the IRA balance, a QCD may also reduce the donor's taxable income in future years, lower the donor's taxable estate, and limit the IRA beneficiaries' tax liability.

2. **Use a charitable deduction to help offset the tax liability of a retirement account withdrawal.**

   Those over age 59½ (to avoid an early withdrawal penalty) who take withdrawals from retirement plan accounts in 2020 may use deductions for their charitable donations to help offset income tax liability on the withdrawals. As with the above strategy, this offers the additional benefits of potentially reducing a donor's taxable estate and limiting tax liability for account beneficiaries.

3. **Convert retirement accounts to Roth IRAs.**

   Individuals who have tax-deferred retirement accounts, such as traditional IRAs, can use charitable deductions to help offset the tax liability on the amount converted to a Roth IRA. The primary benefits of a Roth IRA are tax-free growth, potentially tax-free withdrawals (if holding period and age requirements are met), no annual required minimum distribution, and the elimination of tax liability for beneficiaries (depending on the timing). Be sure to talk with a tax professional or financial advisor before deciding to do a Roth IRA conversion.

What donors can do next

Schwab Charitable offers tools, information, and other resources to inform and guide donors throughout their philanthropic journey. These online resources range from assistance with defining a charitable mission to making tax-smart account contributions, investing account assets for tax-free potential growth, and researching charities for grant recommendations.

For granting insights that will help maximize charitable impact during these unprecedented times, donors are invited to explore:

- Charities recommended by the Center for Disaster Philanthropy for COVID-19 relief
- A search tool for identifying community foundation-sponsored COVID-19 funds across the U.S.
- Resources from leaders in the philanthropic sector to identify causes and charities supporting COVID-19 relief and equal access to justice initiatives
- Our Giving with Impact podcast, where leading voices from across the charitable ecosystem engage in conversations about achieving more effective philanthropy

Individuals considering any of the charitable strategies highlighted above should consult with their tax and legal advisors before taking action. Donors and advisors may also call us at 800-746-6216 with questions or with a request to have one of our chartable specialists participate in a philanthropic conversation.

Related articles

- Donating Non-Cash Assets to Charity
- Bunching Charitable Contributions
- Making Qualified Charitable Distributions (QCDs)

[1] Source: University of Pennsylvania School of Social Policy and Practice: Understanding Donor-Advised Funds: How Grants Flow During Recessions, January 30, 2019.

[2] The CARES Act's 100% of AGI deduction limit on cash contributions applies to federal income taxes and may not be honored by each state's taxing authority. It is also unclear whether combinations of cash and non-cash assets can be used to reach or exceed the 100% of AGI deduction limit. In addition, there is uncertainty about whether taking the election when filing 2020 taxes will eliminate or reduce deductions for other charitable contributions.

[3] Operating charities, or qualifying public charities, are defined by Internal Revenue Code section 170(b)(1)(A). Donor-advised funds, supporting organizations, and private foundations are not considered qualifying public charities.

Schwab Charitable is the name used for the combined programs and services of Schwab Charitable Fund™, an independent nonprofit organization. Schwab Charitable Fund has entered into service agreements with certain subsidiaries of The Charles Schwab Corporation.

The Schwab Center for Financial Research is a division of Charles Schwab & Co., Inc., a subsidiary of The Charles Schwab Corporation.

A donor's ability to claim itemized deductions is subject to a variety of limitations, depending on the donor's specific tax situation. Donors should consult their tax advisors for more information.

Although every effort has been made to ensure that the information provided is correct, Schwab Charitable cannot guarantee its accuracy. This information is not provided to the IRS.