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New Tax Twists to Year-End Charitable Gifts in 2020

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Ken Berry • Dec. 07, 2020

It's customary to give to charity around the holidays at the end of the year. Not only does this benefit worthy causes, it can pay off with a bigger charitable deduction on

your tax return. But there a few extra tax wrinkles to charitable gift-giving in 2020.

Ultimately, your decisions are likely will be affected by recent changes in the Tax Cuts and Jobs Act (TCJA) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Here's the lowdown: Generally, you can deduct the monetary amounts you give to charity—including donations made online by credit card—as well as deductions for gifts of property. However, the deduction can only be claimed by taxpayers who itemize deductions for the year.

This is where the first new law comes into play. Under the TCJA, the standard deduction was essentially doubled and indexed for inflation. For 2020, it's $12,400 for single filers and $24,800 for joint filers. At the same time, the TCJA curtailed or suspended certain deductions, such as imposing a $10,000 annual deduction cap on state and local tax (SALT) payments. These changes are effective for 2018 through 2025.

As a result, fewer taxpayers are itemizing deductions and more are claiming the standard deduction. So you may not receive any tax reward for your charitable contributions.

Optimal approach: Bunch your charitable contributions in the year in which you think they will do you the most tax good. For instance, if you expect to itemize deductions in 2020, go ahead and increase your charitable donations in December. The extra amount will boost your existing deduction. Conversely, if you're pretty sure you'll be claiming the standard deduction this year instead, you may as well postpone contributions to a year when you'll have a shot at a deduction.

Keep in mind this could be especially important for large gifts of property. If you are contemplating a gift of appreciated property, like artwork, you can claim a deduction based on its current value if you've owned the property longer than one year. Normally, the deductible amount is limited to your initial cost. This is a significant tax break you don't want to pass up.

Furthermore, be aware of these provisions included in the CARES Act:

- The new law authorizes a deduction of up to $300 for monetary contributions made by a non-itemizer in 2020. The maximum deduction is doubled to $600 for a married couple. And you still qualify for this above-the-line write-off if you itemize deductions.

- Previously, the annual deduction for monetary contributions to charity was limited to 50% of adjusted gross income (AGI). The TCJA raised this threshold to 60% of AGI for 2018 through 2025. Now the CARES Act allows you to deduct amounts up to 100% of your AGI in 2020. Any excess may be carried over to next year.
- If you're at least 70½ years old, you can transfer up to $100,000 ($200,000 for joint filers) directly from your IRA to charity without any tax, although no deduction for this "qualified charitable distribution" (QCD) is allowed either. Significantly, a QCD counts as a required minimum distribution (RMD), but the CARES Act suspends the RMD rules for 2020. So there's less incentive to arrange a QCD in 2020.

Practical advice: Assess your current situation and act accordingly. Take both taxes and other considerations, such as your charitable giving preferences, into account.

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