1746 Society
Princeton University

Time is Running Out: Charitable Giving Strategies for 2020

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, which was signed into law in March of 2020, provided more than $2 trillion in relief across the U.S. economy, including businesses, health care, nonprofits, and individual citizens. The CARES Act, combined with other recent legislation, presents special and advantageous opportunities for charitable giving. While it is currently unclear whether any of the CARES Act benefits will be extended, most experts believe these benefits will sunset on December 31, 2020.

Here are highlights from the recent tax code changes related to charitable giving and a discussion of ways that they might benefit you.

1. Consider using the 100% AGI limit for charitable deductions if you received a windfall or sold appreciated assets or a business in 2020 and are facing a large capital gains tax in 2020.
2. Create life income for yourself or your loved ones by establishing a charitable gift annuity with cash and using the 100% adjusted gross income (AGI) limitation.
3. Explore more flexibility in charitable giving for IRAs, such as a qualified charitable distribution from your IRA if you are age 70½ or older (an option available even if required minimum distributions are suspended).
4. Establish a "stretch IRA" by directing retirement funds to a testamentary charitable remainder trust or charitable gift annuity.
5. Use the $300 above-the-line tax reduction if you do not itemize on your tax return.

1. For 2020 Only, the Limitation on Cash Gifts to Public Charities Is Eliminated

For the 2020 tax year only, donors of large cash gifts to charity will not be limited in the amount of the income tax charitable deduction that they may take. In past years a limitation of 60% of AGI applied to the income tax deduction for cash gifts to qualified public charities, such as Princeton. With the 2020 deduction lifted, consider whether it makes sense for you to make a larger gift, "bunch" future gifts together, or accelerate the payment of a pledge in 2020 to receive a full income deduction this year.

Gifts of appreciated property such as stocks and bonds to a public charity such as Princeton and gifts of cash and appreciated property to private foundations and other non-public charities are still subject to caps on the amount of the income tax charitable deduction that you can take. If you make such gifts, your unlimited income tax charitable deduction for cash gifts to a public charity is reduced dollar-for-dollar by those other gifts. Any charitable contribution exceeding the limits may be carried forward up to five years and used in later years subject to certain limits.

Charitable contributions carried over from a prior tax year (before 2020) are excluded from this temporary relief and are subject to previous limitations in the tax code.

Consult your tax advisers on how this provision will affect you.

2. Establish a Charitable Gift Annuity

Most tax experts conclude gift annuities funded with cash qualify for the special 100% AGI limitation under the CARES Act because the cash is paid directly to the charity. Gifts to a charitable remainder trust do not qualify because the contributions are made to a trust and not to a charity.

EXAMPLE: Tom, Class of ’66, is looking forward to his 55th Reunion. He is 76 years old and wants to make an AG Legacy gift through a charitable gift annuity. He donates $125,000 in cash for an immediate-pay gift annuity. He will receive a $7,000 (5.6%) annuity guaranteed for life, as well as a $53,000 charitable income tax deduction.

Gift annuities are easy to set up and provide guaranteed income for life to up to two annuitants. They support charity and create a guaranteed income stream to support themselves and/or loved ones. Gift annuities established with Princeton may be used for Annual Giving through the AG Legacy Program or allocated to other institutional priorities such as a scholarship. For more information on Princeton gift annuities, see alumni.princeton.edu/give/gift-planning/create-income-now#ew-3666.

3. More Flexibility in Charitable Giving Using IRAs

Under the CARES Act, Required Minimum Distributions (RMDs) from IRAs, 401(k)s, 403(b)s and most other defined contribution plans do not have to be taken for 2020. However, the benefits of making a direct charitable distribution from an IRA (also known as a Qualified Charitable Distribution or QCD) remain available to donors age 70½ and older. Using a QCD, you can contribute up to $100,000 from an IRA that bypasses recognition for income tax completely.

The CARES Act did not further alter the age minimums that the SECURE Act (Setting Every Community Up for Retirement Enhancement Act) increased. The SECURE Act increased the age for RMDs from 70½ to 72 years for individuals who attain 70½ years after 2019 (born after June 30, 1949).

4. Charitable Remainder Trusts and Charitable Gift Annuities Replace the “Stretch IRA”

The SECURE Act eliminated the “stretch IRA.”

Previously, IRA account holders were able to designate non-spousal beneficiaries on the accounts, and on death, that beneficiary would be able to “stretch” the required IRA withdrawals over his or her lifetime. This allowed young family members to receive the IRAs, take small distributions initially, and grow the accounts over many decades. Now your beneficiaries must withdraw all of the funds within 10 years (although there are no required withdrawals during that ten-year period).

A solution to the ten-year withdrawal requirement for non-spousal beneficiaries is to use a charitable remainder trust (CRT) or a charitable gift annuity. Both can be funded with the IRA account proceeds, and the account holder can designate a beneficiary to receive income over that beneficiary's lifetime. On death, the remaining amounts are distributed to the charity designated by the original IRA account holder during his or her life.

EXAMPLE: Frank makes his $2,000,000 IRA payable to a testamentary charitable remainder unitrust of which Princeton is the both the trustee and the charitable remainder beneficiary. The CRT will pay a 5% unitrust amount first to his spouse, Maureen, for her life, then to his children for their lives. During Maureen's life, all assets in the CRT could be invested tax-free, just as they could be if still in the IRA. With the CRT, there is no increasing minimum distribution percentage required, as there would be under the minimum distribution rules.

The percentage remains at 5% of the trust per year. Maureen starts with a distribution of about $100,000. Upon Maureen's death, Frank's children would continue to receive distributions from the CRT for their lives, and the remaining CRT assets would continue to be invested tax-free. Frank's estate would receive an estate tax charitable deduction equal to the remainder value of the CRT, about $258,200.

5. Non-itemizers Eligible for $300 Charitable Deduction

If you do not itemize your deductions, the CARES Act provides special income tax charitable deductions that will reduce your taxable income. This deduction is available for cash gifts to public charities, such as Princeton, and is limited to $300 per taxpayer (but NOT eligible to be doubled if filing a joint return). It is not available for cash deductions carried forward from prior years.

Note that cash gifts include money, checks mailed by the end of 2020, and credit card donations (as of date posted to account), and there are other forms of cash giving, such as paying a charity's debt and unreimbursed volunteer expenses.

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