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Attorneys:

- **David B. Bussolotta**
  dbussolotta@pullcom.com
  203.330.2223
- **Lauren C. Davies**
  ldavies@pullcom.com
  203.330.2076
- **D. Robert Morris**
  rmorris@pullcom.com
  203.330.2109
- **Kelly F. O'Donnell**
  kodonnell@pullcom.com
  203.330.2264
- **Alan S. Parker**
  aparker@pullcom.com
  860.541.3318
- **James B. Stewart**
  jstewart@pullcom.com
  203.254.5008
- **Karen P. Wackerman**
  kwackerman@pullcom.com
  203.330.2278

The CARES Act and the Expansion of Charitable Contribution Deductions for Individuals and Corporations

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by Kelly F. O'Donnell

The CARES Act, which, notably, provides for coronavirus aid and economic security provisions, has also expanded the deduction for charitable contributions for both individuals and corporate taxpayers under specific circumstances. This change was presumably made both to encourage increased support for public charities on the front lines of providing coronavirus relief and to allow businesses that have already contributed to relief efforts to capitalize on those contributions.

The CARES Act expanded deductions in two important ways. First, a $300 above-the-line deduction has been added to benefit individuals who do not itemize their deductions, allowing them to deduct up to $300 of qualified contributions made in 2020. This is intended to encourage charitable giving among the majority of taxpayers who do not itemize deductions (and therefore do not receive a direct tax benefit for charitable contributions). As written, this change is permanent and there are discussions that suggest the $300 limit may be raised in the coming weeks.

Second, deductions have be previously been limited to 60% of adjusted gross income (“AGI”) for individuals and 10% for corporations, meaning an individual with an AGI of $1,000,000 could not deduct more than $600,000 of charitable contributions. Now, for 2020 only, individuals may deduct contributions up to 100% of their AGI and corporations may deduct up to 25% of their AGI. This provision is intended to encourage donors who might make large cash contributions in 2020 and can take an immediate deduction of a larger amount, rather than carrying it forward for deduction in future years.

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There are, however, important limitations on these expanded provisions. First, these expanded rules do not apply to charitable contributions carried over from a prior tax year. Second, to qualify, the contribution must be a “qualified contribution” meaning that it must be made in cash during the 2020 calendar year to 501(c)(3) charities, specifically *not* including supporting organizations and donor advised funds. Contributions to supporting organizations and donor advised funds are subject to their prior applicable limitations and reduce the allowable deduction for qualified contributions in 2020. This increased deduction applies only to cash donations, not donations of stock, real estate, or other non-cash types of property. Taxpayers will need to elect to receive the benefit of the increased charitable contribution, however, the CARES Act doesn’t specify how that election will be made.

Finally, the CARES Act also increased the limits on charitable contribution deductions for donations of food inventory to public charities that will use it for the care of the ill, the needy, or infants from 15% of the business’s income to 25% of the business’s income to encourage more food donations and also to provide relief to restaurants that closed or will close as a result of the pandemic and may be in a position to donate large amounts of food inventory.