New Legislation Impacts Charitable Giving

A Guide for Maximizing Your Philanthropic Impact in 2021
In March 2020, Congress passed, and the President signed sweeping changes into law in the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act. The CARES Act included some significant changes to tax deductibility of charitable gifts for 2020.

In December, The Consolidated Appropriations Act of 2021 was passed to extend the charitable tax benefits through 2021. These new laws offer an opportunity for benefactors to reevaluate how best to maximize their philanthropic impact at Mayo Clinic this year.

A GUIDE TO RECENT CHANGES

➢ Cash Contribution Limits
  o The adjusted gross income (AGI) deductibility limit for gifts of cash by individuals remains at 100% in 2021, up from 60% prior to the CARES Act.
  o The AGI deductibility limit for gifts of cash by C-corporations remains at 25% in 2021, up from 10% prior to the CARES Act.
  o As with the CARES Act, these rules apply to outright cash gifts in 2021 to public charities but not for contributions to donor-advised funds (DAFs) or private foundations.
  o The deduction produced by funding a gift annuity with cash will qualify for the enhanced AGI limitation if the annuity is established with a public charity in 2021.

➢ Charitable income tax deduction for all individuals
  o Individuals who did not itemize deductions in 2020 were allowed under the CARES Act to take an above-the-line charitable deduction of up to $300 for cash gifts made to public charities, per the guidelines noted previously.
  o For 2021, non-itemizers who file separately (single and head of household) may take a charitable income tax deduction of up to $300, while married filing jointly taxpayers may take a charitable income tax deduction of up to $600. Gifts must follow the guidelines noted previously.

➢ Required Minimum Distributions Resume
  o Required minimum distributions from Individual Retirement Accounts (IRAs) were suspended in 2020, but resume in 2021.
  o The Qualified Charitable Distribution continues to be a great option. Individuals who are 70½ years old or older can give any amount up to $100,000 per year from their IRA directly to Mayo Clinic without having to pay income taxes on the gift.

WHAT THIS MEANS FOR BENEFACTORS

The CARES Act ignited interest among individuals and corporations to amplify their cash gifts to charity in 2020, and this extension of benefits should continue an interest in cash giving in 2021. In doing so, benefactors can drastically reduce their taxable income again in 2021. For individuals, it is possible to reduce their federal taxable income to zero.
Angela’s Example:

- Angela’s estimated AGI for 2021 is $1 million. She wants to make a significant charitable gift of cash to Mayo Clinic, and her advisors have encouraged her to give in a tax-smart way under the new legislation.
- Before the CARES Act and this new legislation, the largest cash gift she could make to fully absorb the deduction in the year of her gift was $600,000 (60% x $1 million AGI).
- Now, thanks to the extension of the CARES Act through this new legislation, she can make a charitable gift of $1 million this year and fully absorb the entire $1 million deduction in 2021. In other words, she has an opportunity to make a bigger impact at Mayo Clinic ($400,000 more in giving) while paying zero federal income tax in 2021.¹

WHAT HASN’T CHANGED

- The Advantages of Donating Long-Term Appreciated Assets
  - Donating long-term appreciated assets (e.g., investment property held longer than 12 months) is a well-known charitable giving strategy for many benefactors because of its tax advantages.
  - Examples of long-term appreciated assets include publicly traded stock, private C-corporation stock, restricted stock, limited partnership interests and real estate.
  - Even during periods of market volatility, long-term appreciated assets that have many years of market appreciation built up can be attractive assets to consider donating for three main reasons.

1. Deduct up to 30% of AGI
2. Take a fair market value deduction
3. Avoid capital gains taxes

¹ The extra $400,000 in deducted income, assuming an effective federal income tax rate of 33%, saves her an extra $132,000 in taxes owed for 2021. In other words, the extra $400,000 in giving only cost her $268,000 to make.
STRATEGIES FOR GIVING IN 2021

➤ Give More Cash in a High-Income Year
  ○ **Individuals.** Recent legislation extends the incentives for individuals to make large gifts of cash in 2021. The advantage is that benefactors can fully absorb the charitable deduction up to 100% of their AGI, thereby reducing their 2021 federal taxable income to zero.
  ○ **Corporations.** Similarly, corporations wanting to maximize their tax savings in 2021 may choose to increase their cash giving again this year, as they have a 25% deductibility limit (relative to their business income).

➤ Give Long-Term Appreciated Assets – Individuals who own low basis stock or other long-term capital assets may choose to donate them to charity in 2021, due to the continued favorable income tax deduction and capital gain avoidance.

➤ Give From a DAF – Many DAF account holders view their DAF as a rainy day fund to enhance their ability to give during volatile markets. Distributing funds already held in a DAF doesn’t affect personal financial security and provides stable and immediate funding for charities.

➤ Accelerate Payments on Pledge Agreements – Benefactors with existing pledge agreements might consider paying those commitments off earlier than planned. Cash payments toward existing pledge agreements count toward any charitable deductions taken this year.

➤ Accelerate Legacy Gift Commitments – Given enhanced tax deductibility in 2021, benefactors with legacy gift commitments through their will or trust might consider accelerating part of those financial commitments. From a tax perspective, they may qualify for an income tax deduction and/or avoid capital gains. In addition, it will remove the amount from their estate.

These are just some of the many ways benefactors may consider supporting Mayo Clinic in 2021. Please contact the Mayo Clinic Office of Gift Planning at 1-800-297-1185 for assistance in understanding how this may impact your philanthropy.

Determining a giving strategy is largely dependent on individual factors, such as income bracket, deductions, and personal goals. Mayo Clinic does not provide legal or tax advice. Benefactors should consult with their legal or tax advisors before making charitable gifts.