



THE CARES ACT CARES ABOUT CHARITABLE GIVING

The Coronavirus Aid, Relief, and Economic Security (CARES) Act offers some charitable-giving incentives. That's great news in these tough times for both charities and those charitably inclined. Here's a snapshot.

The CARES Act Charitable Incentives

- **"Above-the-line" charitable deduction.**

Generally, taxpayers must itemize their deductions to get a tax break on their charitable giving (in the form of the charitable deduction). An exception for taxpayers age 70½ or older is the ability to gift up to \$100,000 annually from an IRA to a public charity. This is known as a qualified charitable distribution (QCD). QCDs are excluded from gross income and have become a popular gifting strategy, especially since it's a way for taxpayers to take a required minimum distribution (RMD) from an IRA and avoid paying tax on it. [More about QCDs may be found here.](#)

The CARES Act allows taxpayers who don't itemize to take an "above-the-line deduction" of up to \$300 (\$600 for a married couple) for certain charitable gifts made in 2020. An above-the-line deduction is an item that is subtracted from gross income in order to calculate adjusted gross income (rather than from adjusted gross income to calculate taxable income). The contribution must be made in cash to a public charity (other than a supporting organization or donor-advised fund). Only contributions actually made in 2020 qualify,

so excess cash contributions carried over from a prior year and treated as if they were made in 2020 are not eligible. It's uncertain at this time whether or not this new charitable deduction for folks who take the standard deduction will be available beyond 2020. While it's a small amount, every little bit helps.

- **A break on percentage limitations for cash gifts for 2020.** The CARES Act also eliminates the percentage limitations on most cash gifts to public charities for 2020. Without this change, contributions of cash to a public charity would be limited to 60% of adjusted gross income. Like the \$300 deduction for non-itemizers, the elimination of percentage limitations for cash contributions also does not apply to gifts to supporting organizations or donor-advised funds. Finally, if a contribution exceeds a donor's adjusted gross income, the excess can be carried over to subsequent years, but subject to the percentage limitations in the carryover years¹. This increased deduction is not automatic but must be elected. Further guidance from the IRS is needed as to how to make the election.

¹A similar change is made to charitable contributions by corporations. Under the law prior to 2020, charitable contributions made by a corporation could not exceed 10% of taxable income with certain adjustments. This has been increased to 25% by the CARES Act for cash contributions made in 2020.

Putting it all Together

Cash is king, especially in hard times. Two potential sources of cash are depreciated securities and IRAs.

A donor with securities that have declined in value below their cost may wish to sell those securities, realize the capital loss, and contribute the cash without regard to percentage limitations.

Alternatively, a donor could pull a taxable distribution from an IRA, give the cash to a public charity, and offset the income by the charitable deduction, either above the line (without itemizing) or below the line (without regard to percentage limitations). This is perhaps especially important for IRA owners younger than age 70½, since they are not eligible to make a QCD. It also may be important for IRA owners older than age 70½, since the CARES Act waives required minimum distributions (RMDs) from most qualified retirement plans—including IRAs—in 2020, so the RMD incentive to do a QCD may have been undermined for 2020. More about the RMD waiver may be found here.

[RMD Waiver \(and Confusion\) in 2020 \(Part 1\)](#)

[RMD Waiver \(and Confusion\) in 2020 \(Part 2\)](#)

Additional Information and Links

The CARES Act, Sections 2203, 2204, and 2205

www.documentcloud.org/documents/6819239-FINAL-FINAL-CARES-ACT.html

If you have any questions regarding this or the CARES Act, please contact
the Retirement Strategies Group at (800) 722-2333, ext. 3939,
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2 of 2



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