



## A Fundraising “Silver Lining”: New Donor Incentives Under the CARES Act

In addition to the [Paycheck Protection Program \(PPP\) and other benefits](#), the CARES Act contained two less publicized benefits for nonprofit organizations with respect to fundraising in calendar year 2020:

- (1) A new allowance for non-itemizing taxpayers (i.e. those who take the “standard deduction”) to claim a \$300 “above-the-line” deduction for donations to 501(c)(3) organizations; and
- (2) For individuals and corporations that do itemize, significant increases in the percentage of income they can deduct based on charitable contributions (to 100 percent and 25 percent, respectively).

Nonprofits should consider leveraging these new incentives to engage donors and solicit new contributions in 2020.

### **Background: Deductible Donations to 501(c)(3) Organizations Prior to CARES**

Under the tax code, donors to 501(c)(3) organizations can deduct the value of their contributions to reduce their taxable income. Specifically, individual donors have been allowed to deduct contributions worth up to 60 percent of their Adjusted Gross Income (AGI) from their taxable income; C-Corporations were also allowed to deduct up to 10 percent of their income from charitable contributions.

Importantly, these deductions have only been available to donors who “itemize” their deductions on Schedule A of their tax return.

Many taxpayers choose to take the “standard deduction” instead of itemizing, meaning that they cannot claim a specific tax benefit for their charitable contributions.

As many nonprofits feared, charitable giving was impacted after the 2017 Tax Cuts and Jobs Act (TCJA) significantly increased the value of the standard deduction, making it less likely that taxpayers would itemize. The Urban-Brookings Tax Policy Center estimated that while 26 percent of filers itemized before the TCJA, only about 10 percent did so afterwards. Furthermore, a report from Giving USA found that individual charitable giving declined 1.1 percent in 2018 (or 3.4 percent when adjusted for inflation), the country’s first decline in charitable giving since 2013.

### **New Deductibility Incentives Under CARES**

#### *A. “Above-the-Line” Deduction for Non-Itemizing Taxpayers*

The CARES Act created a new universal \$300 deduction for cash contributions to 501(c)(3) nonprofits in 2020. As a so-called “above-the-line” deduction—the same category as deductions for educator expenses, IRA contributions, student loan interest payments, and HSA contributions—it will be available to donors who take the standard deduction instead of itemizing their deductions on Schedule A of their tax return. The deduction will be claimed personal income tax filings in 2021.

April 2020

The new deduction cannot be claimed for contributions to certain nonprofit-supporting organizations, donor advised funds, or certain nonprofits that create and manage donor advised funds.

*B. Increased Deduction Limits for Itemizing Taxpayers*

For taxpayers that do itemize, the CARES Act increases the individual deduction limit for donations to 501(c)(3) public charities. For individuals, the deduction limit has been raised from 60 percent to 100 percent of AGI; for corporations, the limit has been raised from 10 percent to 25 percent of taxable income. Existing deduction rollover rules also apply, meaning that donors who contribute more than the income limit can deduct the remaining balance in subsequent years.

The new deduction limits are only available for donations to public charities, meaning that donations to 501(c)(3) private foundations are not affected. Contributions to donor advised funds are also not included in the expanded limits.

**CARES Act & Fundraising Strategy**

Nonprofits can play an important role in educating their donors about the new \$300 deduction and the expanded deduction limits. These new financial incentives, combined with the urgent need for nonprofit services during the COVID-19 pandemic, could become a key element of your nonprofit's fundraising strategy in 2020.

Properly acknowledging charitable donations will continue to be an important donor relations tool during these efforts. Read our legal alert, [Tax-Exempt Organizations Alert: Requirements for Acknowledging Charitable Donations](#), about acknowledging contributions, and listen to our on-demand webinar on this topic,

[Acknowledging Charitable Contributions - A Webinar on What a Nonprofit Needs to Know.](#)

**Additional information for nonprofits and small businesses impacted by the coronavirus pandemic is at the D.C. Bar Pro Bono Center's Coronavirus Legal Resources section at [www.probono.center/NPSB](http://www.probono.center/NPSB).**

**If you have questions about these programs or other legal issues, feel free to contact us at [cedinfo@dcbar.org](mailto:cedinfo@dcbar.org).**

D.C. Bar Pro Bono Center 2020

*This communication is provided by the D.C. Bar Pro Bono Center solely for informational purposes, without any representation that it is accurate or complete. It does not constitute legal advice and should not be construed as such. It does not create an attorney-client relationship between the recipient and any other person, or an offer to create such a relationship. This communication contains information that is based, in whole or in part, on the laws of the District of Columbia and is current as of the date it is written. However, laws vary from state to state and may change from time to time. As a result, the information may not be appropriate for anyone operating outside the District of Columbia and may no longer be timely. Consult an attorney if you have questions regarding the contents of this communication.*