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Temporary Enhancements to Charitable Contributions Deductions in the CARES Act

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Individuals and corporations are allowed a deduction for charitable contributions on their tax returns. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) provided temporary increased benefits for 2020 for some of these deductions. These provisions were extended and increased through 2021 by Division EE of the Consolidated Appropriations Act, 2021 (P.L. 116-260).

Law Before the CARES Act

The deduction for charitable contributions is one of several tax benefits for charitable giving and tax exempt organizations. Individuals may take a charitable deduction if they itemize deductions. Prior to the 2017 tax revision, popularly known as the Tax Cuts and Jobs Act (TCJA; P.L. 115-97), the limit for individuals was 50% of adjusted gross income for gifts (other than gifts of appreciated property) to public charities. (The limit was 30% for gifts of appreciated property, 30% for ordinary gifts to private foundations, and 20% for gifts of appreciated property to private foundations.) The TCJA increased the 50% limit to 60% through 2025 for cash contributions. The TCJA also increased the standard deduction and limited other itemized deductions, reducing the share of taxpayers with a charitable contributions deduction from an estimated 21% to 9%.

The corporate charitable deduction is limited to 10% of taxable income. Corporations (and individuals, in some instances) are allowed special deductions for contributions of inventory. Normally, inventory contributions are limited to the lesser of basis (cost) or fair market value, with inventory reduced by the contributions (so that any inventory cost that is in excess of fair market value can still be deducted in calculating taxable income as the cost of goods sold). For C corporations contributing inventory to 501(c)(3) organizations for the care of the ill, the needy, or infants, the deduction is the basis plus half the difference between the fair market value and basis, up to twice the basis. A similar enhanced deduction exists for businesses (both corporate and noncorporate) for food inventory contributions for the care of the ill, needy, and infants. Cash basis taxpayers who do not keep inventories (including many farmers and some other small businesses) are allowed to deduct half the fair market value under the enhanced food inventory deduction, plus deducting the cost as a business expense. This enhanced deduction for food inventory is limited to 15% of taxable income from the business for both individuals and corporations.

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Charitable deductions exceeding the income limits can be carried forward and deducted in the following five years.

Enhanced Charitable Contributions Incentives in the CARES Act for 2020 and 2021

The CARES Act and the Consolidated Appropriations Act, 2021 provided for three enhancements to the charitable deduction for 2020 and 2021. First, they provided a deduction for cash donations for nonitemizers of up to $300 ($600 for joint returns for 2021) who take the standard deduction. Second, they eliminated the limit on cash gifts of individuals to public charities (but not to donor advised funds, supporting organizations, or private foundations). Third, they increased the limit on charitable contributions from corporations (including food inventory) and individual contributions of food inventory to 25% of taxable income.

Revenue and Economic Effects

The revenue losses for the deduction for nonitemizers and the increased limits (for individuals and businesses) for the CARES Act are estimated at $1.5 billion and $1.1 billion, respectively, for FY2020-FY2030. Because of the five-year carryforward, the revenue loss for the increase in income limits is $4.8 billion in the first two fiscal years, partially offset by gains in the following four fiscal years as carryovers decrease (all of the loss for the nonitemizer deduction is in the first two fiscal years). The revenue losses for extending these two provisions (and increasing the amount for joint returns) to 2021 for the Consolidated Appropriations Act, 2021 are $2.9 billion and $0.8 billion, respectively for FY2021-FY2030.

The $300 nonitemizer deduction is likely to have a limited effect on charitable contributions because of its relatively small caps. One study estimated that the induced charitable giving from the nonitemizer deduction would be $100 million, because most taxpayers who contribute are already contributing amounts in excess of $300.

Lifting caps on the deductions for both individuals and businesses can provide an incentive for additional charitable giving. Evidence on the response of charitable giving by individuals has been widely studied with mixed results. A review of this evidence suggests that an enhanced charitable deduction is likely to increase charitable giving by less than the associated revenue loss. Lifting the limits affects a relatively small share of charitable giving, and the revenue pattern suggests that much of the initial revenue loss (77%, that is, [1-1.1/4.8]) can be attributed to an accelerated realization of carryovers. With charitable giving estimated at $449.6 billion in 2019, if *all* of the permanent revenue loss led to an increase in charitable giving by the same amount (i.e., $.1.1 billion), additional giving would be 0.2% (1.1/449.64) of expected giving prior to the current economic slowdown.

Proposals to Increase Charitable Giving Incentives

Several proposals have been made in Congress to provide either a permanent or temporary increased nonitemizer deduction (in some cases capping the deduction at one-third of the standard deduction (i.e., slightly over $8,300 for a joint return in 2021). One study indicated that this capped deduction would cost around $14 billion in 2020 (estimated before the coronavirus's effect on the economy). A nonitemizer deduction with a floor (i.e., deductions allowed only for contributions above a threshold, either a dollar amount or percentage of income) rather than a ceiling would induce more contributions per dollar of revenue loss. A floor could be extended to itemized deductions as well, to raise revenue to fund additional benefits, with minimal effect on the incentive effect of the deduction. The Congressional Budget Office has estimated that a floor of 2% of adjusted gross income for itemizers would raise $14 billion in revenue in FY2022.

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