2020-2021 Cares Act Tax Benefit

Under the 2020 CARES Act as extended into 2021, you can take an income tax charitable deduction against 100% of your income for federal tax purposes. The only requirements are that you make the donation in cash to a regular public charity before the end of the year. If you do that, your deduction, together with any charitable deductions you are already taking, is deductible up to the full amount of your income. In other words, you can literally choose to give money to charity instead of paying Federal income taxes this year.

What's the big Deal?

The combination of a 100% income tax deduction for cash gifts with all the existing charitable giving rules allows us to use assets for giving that we can't normally reach. You can use retirement assets, exercise stock options and even get rid of environmentally "challenged" real estate. Consider these Simple Strategies.

1. Sell Anything!

Some assets are poor candidates for charitable giving. "Problem Assets" include anything you have owned for less than one-year, mortgaged property, real estate with environmental problems, intellectual property and art.

In all those situations, the potentially simple solution is to sell the property and donate the proceeds. Because this year you can donate 100% of your gains, no matter how much that sale increases your income it will all be deductible! And if your proceeds exceed your gains, you can donate more and reduce or eliminate your other federally taxable income.

2. Access Retirement Assets for Giving

Under the regular rules, anyone over 70 1⁄2 can donate up to $100,000 per year directly to charity from an IRA account and those funds are not taxed as a withdrawal. But younger people or those pulling funds from 401(k) plans, pension or profit-sharing plans all have taxable income.

But for the rest of this year (2021), anyone who can withdraw assets from any qualified plan without a penalty, typically anyone over age 59 1⁄2, can take IRA, 401(k) or pension plan withdrawals and donate them to charity. The withdrawal increases your income, but since the donation is fully deductible, your donation offsets the increased income and effectively achieves a federally tax-free distribution.

3. Exercise Employment based Stock Options

Many employees at publicly traded companies have significant compensation in the form of Non-qualified stock options or Restricted Share Units. Under the tax laws, these contract rights are usually not assets that can be donated before being exercised. Typically, the employee's only choice is to exercise the contract rights at which point the "gain", the amount in excess, of any required payments, is taxable as ordinary income or capital gains.

In the 2021 tax year, since 100% of any charitable donations are deductible for federal income tax purposes, here too you can exercise as many options as you want and donate the gains to charity. In all these situations, you may still have some state tax liability (the California deduction is limited to 50% of your income) but your federal income tax can be zero.