IRS Statements and Announcements:

Expanded tax benefits help individuals and businesses give to charity during 2021; deductions up to $600 available for cash donations by non-itemizers

IR-2021-190, September 17, 2021

WASHINGTON — The Internal Revenue Service today explained how expanded tax benefits can help both individuals and businesses give to charity before the end of this year.

The Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted last December, provides several provisions to help individuals and businesses who give to charity. The new law generally extends through the end of 2021 four temporary tax changes originally enacted by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Here is a rundown of these changes.

Deduction for individuals who don't itemize; cash donations up to $600 qualify

Ordinarily, individuals who elect to take the standard deduction cannot claim a deduction for their charitable contributions. The law now permits these individuals to claim a limited deduction on their 2021 federal income tax returns for cash contributions made to certain qualifying charitable organizations. Nearly nine in 10 taxpayers now take the standard deduction and could potentially qualify to claim a limited deduction for cash contributions.

These individuals, including married individuals filing separate returns, can claim a deduction of up to $300 for cash contributions made to qualifying charities

during 2021. The maximum deduction is increased to $600 for married individuals filing joint returns.

Cash contributions to most charitable organizations qualify. However, cash contributions made either to supporting organizations or to establish or maintain a donor advised fund do not qualify. Cash contributions carried forward from prior years do not qualify, nor do cash contributions to most private foundations and most cash contributions to charitable remainder trusts. In general, a donor-advised fund is a fund or account maintained by a charity in which a donor can, because of being a donor, advise the fund on how to distribute or invest amounts contributed by the donor and held in the fund. A supporting organization is a charity that carries out its exempt purposes by supporting other exempt organizations, usually other public charities. See [Publication 526, Charitable Contributions] for more information on the types of organizations that qualify.

Cash contributions include those made by check, credit card or debit card as well as amounts incurred by an individual for unreimbursed out-of-pocket expenses in connection with the individual's volunteer services to a qualifying charitable organization. Cash contributions don't include the value of volunteer services, securities, household items or other property.

100% limit on eligible cash contributions made by itemizers in 2021

Subject to certain limits, individuals who itemize may generally claim a deduction for charitable contributions made to qualifying charitable organizations. These limits typically range from 20% to 60% of adjusted gross income (AGI) and vary by the type of contribution and type of charitable organization. For example, a cash contribution made by an individual to a qualifying public charity is generally limited to 60% of the individual's AGI. Excess contributions may be carried forward for up to five tax years.

The law now permits electing individuals to apply an increased limit ("Increased Individual Limit"), up to 100% of their AGI, for qualified contributions made during calendar-year 2021. Qualified contributions are contributions made in cash to qualifying charitable organizations.

As with the new limited deduction for nonitemizers, cash contributions to most charitable organizations qualify, but, cash contributions made either to supporting organizations or to establish or maintain a donor advised fund, do not. Nor do cash contributions to private foundations and most cash contributions to charitable remainder trusts

Unless an individual makes the election for any given qualified cash contribution, the usual percentage limit applies. Keep in mind that an individual's other allowed charitable contribution deductions reduce the maximum amount allowed under this election. Eligible individuals must make their elections with their 2021 Form 1040 or Form 1040-SR.

Corporate limit increased to 25% of taxable income

The law now permits C corporations to apply an increased limit (Increased Corporate

Limit) of 25% of taxable income for charitable contributions of cash they make to eligible charities during calendar-year 2021. Normally, the maximum allowable deduction is limited to 10% of a corporation's taxable income.

Again, the Increased Corporate Limit does not automatically apply. C corporations must elect the Increased Corporate Limit on a contribution-by-contribution basis.

Increased limits on amounts deductible by businesses for certain donated food inventory

Businesses donating food inventory that are eligible for the existing enhanced deduction (for contributions for the care of the ill, needy and infants) may qualify for increased deduction limits. For contributions made in 2021, the limit for these contribution deductions is increased from 15% to 25%. For C corporations, the 25% limit is based on their taxable income. For other businesses, including sole proprietorships, partnerships, and S corporations, the limit is based on their aggregate net income for the year from all trades or businesses from which the contributions are made. A special method for computing the enhanced deduction continues to apply, as do food quality standards and other requirements.

Keep good records

The IRS reminds individuals and businesses that special recordkeeping rules apply to any taxpayer claiming a charitable contribution deduction. Usually, this includes obtaining an acknowledgment letter from the charity before filing a return and retaining a cancelled check or credit card receipt for contributions of cash. For donations of property, additional recordkeeping rules apply, and may include filing a Form 8283 and obtaining a qualified appraisal in some instances.

For details on how to apply the percentage limits and a description of the recordkeeping rules for substantiating gifts to charity, see Publication 526, available on IRS.gov.

The IRS also encourages employers to help get the word out about the advance payments of the Child Tax Credit because they have direct access to many employees and individuals who receive this credit.

For more information about other Coronavirus-related tax relief, visit IRS.gov/coronavirus.

Emphasis Added.

Craig Miller, President
Westminster U.S.A. Ltd.
4 West Red Oak Lane - Suite 110
White Plains, NY 10604-3603
Direct Line: 914-697-5050

tax advice contained in this communication or any attachment hereto is not intended and not written to be used, and cannot be used for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein. No annuity, securities, or other investment purchase can be made other than through duly registered broker-dealers, registered investment advisors, and/or licensed life insurance agencies, as applicable.

Familial Disclosure: Craig Miller is the President of Westminster U.S.A. Ltd. ("Westminster"). Linda Miller is the Chief Actuary of Westminster U.S.A. Ltd. and a registered representative and investment advisory representative of the Cetera Advisor Networks LLC broker-dealer and registered investment advisor ("Cetera"). Andrew Miller is a Senior Analyst of Westminster and a registered representative and investment advisory representative of Cetera. Craig Miller and Linda Miller are married to one another. Andrew Miller is their son. Westminster and Cetera are independent companies, unaffiliated with one another. Clients of either are free to do business with the other, or not, with no resultant impact or effect upon their relationship, if any, with either. A decision to purchase or not purchase products or services offered by either company does not affect, in any way, the availability, substance, or cost of any products or services which may be offered by the other. Cetera, Linda Miller, and Andrew Miller are generally compensated for business which clients of Andrew and Linda Miller, respectively, do with or through Cetera, including financial products sold; Westminster and Craig Miller are not. Neither Westminster nor Craig Miller engage in the sale of securities. Westminster is generally compensated, by its clients, for professional services it provides to them or for their benefit. Cetera is not compensated with respect to services provided by Westminster.