



Business charitable contribution rules have changed under the CARES Act

In light of the novel coronavirus (COVID-19) pandemic, many businesses are interested in donating to charity. In order to incentivize charitable giving, the Coronavirus Aid, Relief and Economic Security (CARES) Act made some liberalizations to the rules governing charitable deductions. Here are two changes that affect businesses:

The limit on charitable deductions for corporations has increased. Before the CARES Act, the total charitable deduction that a corporation could generally claim for the year couldn't exceed 10% of corporate taxable income (as determined with several modifications for these purposes). Contributions in excess of the 10% limit are carried forward and may be used during the next five years (subject to the 10%-of-taxable-income limitation each year).

What changed? Under the CARES Act, the limitation on charitable deductions for corporations (generally 10% of modified taxable income) doesn't apply to qualifying contributions made in 2020. Instead, a corporation's qualifying contributions, reduced by other contributions, can be as much as 25% of taxable income (modified). No connection between the contributions and COVID-19 activities is required.

The deduction limit on food inventory has increased. At a time when many people are unemployed, your business may want to contribute food inventory to qualified charities. In general, a business is entitled to a charitable tax deduction for making a qualified contribution of "apparently wholesome food" to an organization that uses it for the care of the ill, the needy or infants.

"Apparently wholesome food" is defined as food intended for human consumption that meets all quality and labeling standards imposed by federal, state, and local laws and regulations, even though it may not be readily marketable due to appearance, age, freshness, grade, size, surplus, or other conditions.

Before the CARES Act, the aggregate amount of such food contributions that could be taken into account for the tax year generally couldn't exceed 15% of the taxpayer's aggregate net income for that tax year from all trades or businesses from which the contributions were made. This was computed without regard to the charitable deduction for food inventory contributions.

What changed? Under the CARES Act, for contributions of food inventory made in 2020, the deduction limitation increases from 15% to 25% of taxable income for C corporations. For other business taxpayers, it increases from 15% to 25% of the net aggregate income from all businesses from which the contributions were made.

CARES Act questions

Be aware that in addition to these changes affecting businesses, the CARES Act also made changes to the charitable deduction rules for individuals. Contact us if you have questions about making charitable donations and securing a tax break for them. We can explain the rules and compute the maximum deduction for your generosity.

© 2020