

To provide economic support during the COVID-19 pandemic, Congress enacted CARES Act in March. Foreseeing a significant decline in charitable donations as a result of the pandemic, Congress included a provision raising the deduction limitation for gifts of cash this year from a maximum of 60% of adjusted gross income (AGI) to 100% of AGI. With the new legislation in place, donors can claim charitable deductions that offset their entire AGI. The increased AGI limitation is available only in 2020 and applies only to gifts made directly to public charities (donor advised funds, supporting organizations, and private foundations are excluded).

Ordinarily reducing AGIs lowers one's tax burden, but in 2020 it may be possible for donors to raise their AGIs without increasing their taxes thanks to the higher deduction limit this year for cash gifts.

The following are examples of how a donor might raise their AGI without increasing federal income tax:

- Realize capital gains by selling appreciated assets and then using the cash proceeds (or other available cash) to make a charitable gift that offsets the capital gain tax.
- Withdraw funds from a tax-deferred account such as an IRA, 401(k), or 403(b) or from a commercial deferred annuity and contribute the funds to charity.
- Convert a traditional IRA, 401(k), or 403(b) balance to a Roth IRA, using other funds to make a cash contribution to charity that offsets the deferred income tax due as a result of the conversion.

There are other tax issues to consider, including potential exposure to the 3.8% net investment income tax for those with high AGIs and of course state and local income taxes. As with all financial planning activities, please consult with your advisors on how you might take advantage of this limited time provision. While most opportunities to use the 100% of AGI ceiling will involve outright gifts, gifts of cash to fund charitable gift [annuities](#) also qualify for the higher deduction allowance.