CARES Act: Changes to Retirement Account Distributions

The government recently passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, an unprecedented stimulus package intended to help the American people and the economy cope with and recover economically from the coronavirus (COVID-19) global pandemic. In this flash update, we focus on the changes to qualified retirement account distributions and their potential impact on charitable giving.

CARES Act – Changes to Retirement Account Rules

- Individuals will not be required to take their required minimum distributions (RMDs) for the 2020 calendar year. This applies to those with individual retirement accounts, defined contribution plans, or eligible deferred compensation plans.
- Individuals may withdraw up to $100,000 from qualified retirement plans for coronavirus-related matters without facing the normal 10% penalty (applicable to those under the age 59 1/2). This includes distributions for anyone who is diagnosed with the coronavirus (COVID-19) or whose spouse or dependent is diagnosed with the coronavirus. It also includes individuals who face financial hardship as a direct result of the coronavirus (COVID-19) outbreak. The coronavirus-related distribution can be repaid to the qualified account over the three years following the original disbursement. The distribution is subject to federal income tax, but individuals can choose to pay the tax over the three-year period.

What Does This Mean for Qualified Charitable Distributions?

- Some individuals choose to make their annual charitable contributions from their retirement accounts through a qualified charitable distribution (QCD) — a direct distribution to a charitable organization. QCDs differ from RMDs in that they are not included in an individual's taxable income. This makes QCDs a tax advantageous way to satisfy donors' RMD requirements while also satisfying their philanthropic desires.
- With the CARES Act waiving the annual minimum distribution requirements, there is a chance that fundraisers could see a decline in QCDs. Further complicating matters, individuals may be less incentivized to give from noncash assets, such as investment accounts, particularly when it involves selling at depressed values.
- Fundraising through QCDs may not be as effective now as it has been in the past. Nonprofit organizations should consider these temporary changes when mapping out donation sources.

Reasons to Remain Hopeful

- While QCDs may be less prevalent, there is a new avenue of fundraising available. A provision in the CARES Act allows individual donors who do not currently itemize deductions on their tax returns to report up to $300 in charitable cash contributions in tax years starting after December 31, 2019. This $300 deduction could be an incentive for those who are not normally philanthropic, and it can allow nonprofits to reach a much larger percentage of the population than they did before.
- Virtual campaigns designed to reach a broad audience could also prove to be an effective fundraising technique this year. If you are unsure on ways to fundraise during this pandemic, please refer to our whitepaper *Best Practices for Maintaining Donor Engagement During the COVID-19 Pandemic* for ideas.
- Even in difficult times, people and companies are generous and want to help their neighbors and communities. Over the past three decades, we have twice seen the US GDP plummet during a recession. Despite unemployment rising and household income falling during these periods, charitable giving

persisted. In fact, the growth in charitable giving has been positive for all but 2 of the past 25 years, indicating that even in the worst economic times, people still choose to help those in need. Please see our paper *Fundraising Through Adverse Scenarios* for more information on what nonprofits can expect during these uncertain times.

- Even though RMDs are waived this year, charitable contributions through QCDs are still one of the best ways for individuals to give in a tax-effective manner. Even if QCD levels come in lower this year, we would expect them to bounce back in future years.

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The Endowment & Foundation National Practice Group

The Endowment & Foundation National Practice Group builds on our long-standing commitment to philanthropy and is focused on endowments, private and public foundations, and nonprofit organizations. We seek to help these organizations address their distinct investment, distribution and capital preservation challenges.

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