

## Charitable Deduction Change Coming?

Take-Away: A potential change in Congress is *The Charitable Act*, or the *Universal Charitable Deduction Act* which would allow non-itemizers to claim up to one-third of the existing standard deduction as a qualified charitable deduction.

Background: The 2017 Tax Act increased the adjusted gross income (AGI) limit on cash contributions to qualified charities from 50% to 60%. However, that increase (from 50% to 60%) is set to expire at the end of 2025. Most likely, given the current make-up of Congress, that increase in the allowable charitable deduction will be extended along with most of the other provisions of the 2017 Tax Act.

Charitable Deduction Limits: There are limits on the amount of charitable deduction that may be claimed in a year. As noted, generally up to 60% of AGI for cash and up to 30% of AGI for gifts of long-term appreciated property will be deductible. Without the extension of the 2017 Tax Act, the 60% limit for cash falls back to 50% of AGI.

Corporations: A C corporation generally has a much more restricted 10% limitation on charitable donations as a percentage of its income. [2024 Form 1120 instructions.] In addition, there are specialized rules that can apply to certain charitable deductions of a corporation. An S corporation's charitable donations flow-through to be reported on the shareholder's income tax return.

Services: While property donations can qualify for the charitable income tax deduction, donating services to qualified charity is not tax deductible, although out-of-pocket costs incurred in donating those services to a qualified charity are generally tax deductible

Dealer Property: *Dealer property* can yield a charitable donation tax deduction; however, the deduction is limited to the lower of fair market value or cost. If real estate investment property is involved, and the dealer does development work on the real property to the point that it becomes '*dealer property*,' this can result in the property's donation being measured by its cost basis rather than its higher fair market value.

Standard Deduction: As we have learned from experience over the past several years, the charitable income tax deduction does not actually save income taxes if itemized tax deductions, including the

charitable deduction, are less than the standard deduction for an individual's filing status. Charitable deductions and other itemized deductions do not reduce income taxes when the standard deduction is claimed. The standard deduction for 2025 is \$15,000 for singles and \$30,000 for a married couple filing jointly. A head of household's standard deduction is \$22,500. Charitable donations are generally limited to a percentage of adjusted gross income (AGI), albeit subject to carryover during the donor's lifetime for a limited number of years.

**Above the Line Deduction:** In 2020 and 2021, Congress enacted a temporary charitable deduction for non-itemizers to encourage charitable donations during the COVID epidemic. [The CARES Act.] The deduction was capped at \$300 for both individuals and joint filers in 2020. For joint filers, the limit was doubled for 2021 to \$600. This helped to increase charitable giving primarily through a significant increase in small-gift donations, but then declined dramatically after the temporary deduction expired after 2021.

*The Charitable Act:* This was bipartisan legislation proposed to restore and expand the charitable deduction for non-itemizers for 2026 and 2027. [Senate Bill 566; House Bill 3435, formerly H.R. 801.] It had set the limitation at \$5,000 for individuals and \$10,000 for joint filers. The intent was to incentivize charitable giving, since about 90% of Americans do not itemize their deductions and instead take the standard deduction.

**Universal Charitable Deduction Act:** This is the former Charitable Act, reintroduced by its former sponsors [Senators Lankford and Coons] this year which would provide for a universal charitable deduction open to all taxpayers regardless of their income level up to one-third of the current standard deduction [\$15,000 single filers, and \$30,000 joint filers].

**Giving Tied to the Deduction:** For context, back in 2023, after considering the 4.1% inflation rate for 2023, charitable giving by individuals declined in 2023 by 2.4%. An analysis of the Philanthropy Roundtable determined that for every \$1.00 increase in the tax benefit available, charitable donations rise by a statistically significant \$1.30.

**Revenue Impact:** If the Universal Charitable Deduction Act passes, the estimated charitable deduction would increase charitable contributions by non-itemizers by approximately \$40 billion a year, which would be a 7% increase over the \$577 billion donated in 2023. The cost from enacting the proposed law in foregone tax revenue would be \$16 billion a year. By providing a more limited charitable deduction

for non-itemizers of \$1,000 for couples who file jointly and \$500 for individual filers would increase charitable donations by about \$11 billion per year and cost \$3 - \$4 billion per year in lost tax revenues.

Conclusion: With the expected reduction in governmental programs during President Trump's administration, more pressure will be placed on publicly supported charities to make up the difference in providing needed services for marginalized members of society. Any small step that Congress can take to encourage philanthropy would be welcome to help address the coming austerity.

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