

End of 2025 Charitable Giving

Quick-Take: With the charitable giving rules changing in about a month, there may be a couple of last-minute steps to take to maximize the tax deduction impact of a charitable gift.

Background: I fielded a couple of questions recently about when the ‘new’ charitable giving rules under the One Big Beautiful Bill Act (OB3) are effective. The OB3’s varying effective dates for many of its provisions, with many of its new income tax deductions, no doubt has caused some confusion.

2026: The new charitable giving rules come into effect in 2026, not 2025. A short summary of the ‘new’ charitable giving rules follows.

Standard Deduction: The standard deduction for non-itemizers is going to be \$16,100 for an individual and \$32,200 for a married couple who file jointly. In past years over 90% of taxpayers filed claiming the standard deduction and did not itemize their deductions. It is estimated that even with the new charitable giving rules most taxpayers will continue to claim the standard deduction on their income tax returns.

Cash Gift to Charity Donor Income Limit: Under the 2017 Tax Act a taxpayer was permitted to make a cash gift to charity and deduct that *cash* gift up to 60% of the donor’s adjusted gross income (AGI) for that year. That opportunity was scheduled to disappear starting in 2026 and revert to the 50% of the donor’s AGI for the income tax charitable deduction. The 60% of AGI limit for *cash* gifts to charity was made permanent under the OB3.

Above-the-Line Deduction: The OB3 creates a new charitable giving opportunity, even for those taxpayers who claim the standard deduction. Starting in 2026, a donor will be able to deduct a *cash* charitable contribution of \$1,000 and still be able to claim the standard deduction amount on their income tax return. A married couple will be able to deduct *cash* gifts of up to \$2,000 and still claim the standard deduction. Most, but not all, charities are eligible to receive this above-the-line charitable deduction contribution. Excluded as

permissible charities are donor advised funds (DAFs), some ‘supporting’ organizations, and foundations; these excluded charities mirror the charities that cannot receive a qualified charitable distribution (QCD) from a traditional IRA. It is best to think of an eligible charity for this *cash* gift opportunity as limited to a 501(c)(3) organization.

Limit on Charitable Deductions for Itemizers: Starting in 2026 charitable deductions for donors who itemize their deductions will be subject to a *floor*. A donor will be allowed only the charitable deduction to the extent that their total charitable contributions exceed 0.5% of their adjusted gross income (AGI).

Example: Donor Liz has \$200,000 of AGI in 2026. Only a portion of Liz’s charitable giving *above* \$1,000 will be deductible by her on her 2026 income tax return. [$0.05\% \times \$200,000$ AGI = \$1,000 nondeductible, regardless of the amount of Liz’s gift.]

High Income Charitable Donor Limitation: For an income tax deduction itemizer who is in the highest marginal federal income tax bracket in 2026, i.e., the marginal 37% bracket, the value of the itemized charitable deduction will be limited to 35%. This change will reduce the tax benefit of a charitable contribution for a donor who is in the highest marginal federal income tax bracket, as it lowers the value of the tax deduction from about 37 cents per dollar in 2025 to 35 cents per dollar in 2026.

Example: Donor Liz is in the highest marginal federal income tax bracket of 37% in 2026. If Liz makes a charitable gift of \$10,000 to her church and she itemizes her income tax deductions, that \$10,000 gift to her church will generate a \$3,500 federal tax benefit, compared to a \$3,700 federal tax benefit if Liz’s deductible gift to her church had been made in 2025.

Corporate Donor Income Limitation for Charitable Contributions: Starting in 2026 the corporate charitable deduction will become subject to a 1% *floor*. Only the portion of the corporation’s charitable gift that exceeds 1% of the corporation’s taxable income (the *floor*) will be deductible by the corporation as a charitable contribution. In addition, there is a continuation of the current rule, that a charitable deduction for a corporation will continue to be limited to 10% of the corporation’s taxable income.

End-of-Year Philanthropy Planning:

- 1. Non-Itemizers:** For a donor who plans to use the standard deduction and not itemize his/her income tax deductions, it makes sense to postpone their charitable gift until January 2026 to take advantage of the above-the-line charitable deduction for *cash* gifts of \$1,000 per person.
- 2. Corporate Donors:** If a corporation's cash-flow permits, the corporation should consider *bunching* its charitable gifts into 2025, or make its contribution to a donor advised fund (DAF) before the 2026 charitable giving income *floor* kicks in.
- 3. Itemizers:** A high-income donor should consider accelerating, or *bunching*, his/her charitable contributions into 2025 to avoid being subject to the 0.5% of AGI *floor* as well as the 35% limit on the amount of the charitable gift that is deductible.

Example: If Donor Liz would ordinarily contribute \$100 each year to her favorite charity, she should consider making multiple years' worth of charitable contributions in 2025 to maximize the potential income tax benefit of her charitable giving, such as contributing \$300 in 2025 rather than \$100 in each of years 2025, 2026, and 2027. Or, as with a corporation, Liz could make a gift in 2025 to a donor advised fund (DAF), claim the larger income tax deduction for 2025, and continue with her annual gifting from the DAF over the following years without having part of her charitable gift nondeductible each year.

- 4. QCDs:** The qualified charitable distribution rules were not changed by the OB3. A donor age 70 ½ who transfers funds directly from their traditional IRA can gift up to \$108,000 in 2025 and not have the distribution included in their taxable income. However, the donor also cannot deduct the QCD amount. A QCD will be treated as having satisfied (in whole or in part) the donor's required minimum distribution (RMD) obligation for the calendar year. It is estimated that the QCD permissible amount in 2026 will be close to \$115,000. Recall that a QCD cannot be used for distributions to a donor advised fund (DAF), a supporting organization, or a private foundation.

5. Gift of Appreciated Stock: With the stock market being on a roar for most of 2025, many donors will be holding highly appreciated stock at the end of 2025. If a donor feels the need to accelerate their charitable giving into 2025 to avoid the new income *floors* for charitable giving in 2026, the donor should consider contributing some appreciated stock, or other long-term capital assets, which will allow a full fair market-value charitable deduction while avoiding any capital gains tax.

Conclusion: Timing charitable gifts has always been important due to the donor's cash-flow needs. This December, in particular, timing becomes an even more critical consideration for donors who look to how the OB3's new charitable deduction income *floors* will curb future available income tax deductions. Accelerating charitable gifts into 2025 will make sense for many donors.

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