Charitable Giving under OBBBA

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PALLAS CAPITAL ADVISORS

The Only Constant in Life is Change

Serious about making gifts to charity? A few big changes are coming to charitable tax incentives when certain portions of the One Big Beautiful Bill Act (OBBBA) take effect on January 1, 2026. The new rules will expand opportunities for some donors, reduce benefits for others, and make charitable planning more complex for everyone. So, while it's still 2025, let's look at some key charitable tax planning changes in the next year.

1. Below-the-Line Deduction for Non-Itemizers

Starting in 2026, taxpayers taking the standard deduction can deduct up to $1,000 (single) or $2,000 (married filing jointly) for **cash** gifts to qualified charities. The deduction reduces taxable income (not adjusted gross income - AGI) and excludes gifts to donor-advised funds (DAFs), private foundations, or supporting organizations. While modest, this provision is expected to make charitable deductions accessible to millions of non-itemizers. Remember, only gifts of cash qualify.

Planning Tip: Because this deduction reduces taxable income, but not AGI, this means it will not lower thresholds for tax benefits like Medicare's Income-Related Monthly Adjustment Amount (IRMAA), surtaxes (e.g., the Net Investment Income Tax), or AGI-based credits, such as the Child Tax Credit, Dependent Care Credit and Adoption Credit.

2. 35% Cap for High Earners

Also beginning in 2026, for taxpayers in the highest marginal (37%) bracket, the value of charitable and other itemized deductions will be capped at 35%. So next year, a $10,000 gift that currently saves $3,700 in taxes will save only $3,500.

Planning Tip: High-income donors may want to accelerate major gifts before 2026 to maximize deductions. A Donor-Advised Fund can be useful for this objective.

3. New Deduction Floors

In 2026, itemizers will only be able to deduct contributions exceeding 0.5% of adjusted gross income (AGI); corporations face a 1% threshold. This change encourages larger, less frequent gifts and strategic planning to maximize tax benefits.

For example, a couple who itemizes and has $225,000 of AGI couldn't deduct the first $1,125 of their charitable donations. If charitable gifts are $2,000, then their deduction is limited to $875.

Planning Tip: It might be better for this couple to claim the standard deduction, rather than itemize. This way, they could take advantage of the $2,000 below-the-line deduction described under item 1 above. However, that simpler alterative would need to be weighed against the benefits from deductions for SALT, mortgage interest, and others that may be obtained by itemizing. Itemization might still be the best route and in that case, they might opt to bunch their charitable donations and make them every few years instead of annually. Again, a Donor-Advised Fund is very useful here.

Remember the QCD

Perhaps Trumping all these scenarios in terms of income tax efficiency would be the Qualified Charitable Distribution (QCD). If the donor has attained age 70 ½, using a QCD directly from an IRA to charity (can't be a Donor Advised Fund) will serve to reduce AGI, potentially reducing or eliminating other surtaxes, and would be the most tax-efficient option for giving. Also, the QCD is not a deduction, since it results in no income recognition at all. Thus, there is no need to worry about the new 0.5% floor on AGI for tax deduction purposes.

In 2025, the QCD limit is $108,000. Couples could donate up to $216,000. QCDs also satisfy Required Minimum Distribution (RMD) amounts.

Always Seek Advice

For information on how these changes could affect you personally and your charitable giving strategy, be sure to obtain advice from a qualified financial advisor or tax professional.