

# One Big Beautiful Bill - Charitable Deduction Changes Ahead

AUGUST 27, 2025 | BY: THE LEADERSHIP TEAM



1

You are likely aware that making charitable donations can be a very effective way to reduce your overall tax burden, but recent tax legislation has changed some of the key rules around charitable deductions. Understanding how charitable deductions work and how the new rules will impact those deductions is critical to ensure that your giving strategy for the remainder of 2025 and into future years will help you achieve your goals.

The OBBB, signed into law on July 4, 2025, made several changes to individual charitable contribution rules. Before this legislation, charitable planning was largely (but not entirely) limited to taxpayers who itemized their deductions. The new rules will continue to have a stronger impact on itemizers, but those who take the standard deduction in lieu of itemizing will also be impacted and should understand how the new rules work.

#### For Non-Itemizers:

For taxpayers who do not itemize their deductions, the OBBB introduced a new above-the-line charitable deduction effective in 2026. This deduction allows any taxpayer to reduce their income by up to \$1,000 for single filers (and \$2,000 for married couples) for cash donations to a charity. Most taxpayers do not itemize their deductions – often because their charitable gifts are not large enough to make that advantageous – so this provision provides a new benefit to them. It's important to note that this rule applies only to cash (or check) donations to qualified charities. Donations to a donor advised fund and donations of appreciated stock do not qualify. Tax contributions carried over from a prior tax year in which they were disallowed do not qualify for this deduction.

### For Itemizers:

There are two key provisions that will limit deductibility of charitable contributions for itemizers beginning in 2026: a new floor on deductions and a cap on the tax benefit of deductions for high-income taxpayers. Taxpayers who may be subject to these rules need to think about accelerating donations into the 2025 tax year.

Beginning in 2026, the OBBB establishes a 0.5% floor for charitable contribution deductions, meaning only contributions that exceed 0.5% of a taxpayer's adjusted gross income (AGI) will be deductible. For example, if a taxpayer's income is \$100,000 and they make cash donations of \$10,000, then only the contributions in excess of \$500 (0.05% of \$100,000) will be eligible for deduction. In this example, the taxpayer would receive a deduction of \$9,500, rather than the full \$10,000 that was given to the charity.

On top of this limitation, for taxpayers in the top (37%) tax bracket, the OBBB has an overall limitation on itemized deductions that will indirectly limit the benefits of charitable donations. This provision limits itemized deductions by 2/37 of the lesser of (a) the taxpayer's itemized deductions or (b) their taxable income exceeding the 37% bracket. See below for an example of this limitation in practice on a single individual with the same adjusted gross income and donation amount in 2025 and 2026:

Adjusted Gross Income (AGI)
Cash Contributions
0.5% Floor Limitation

**2025 2026** \$800,000 \$800,000 \$100,000 - (\$4,000.00)



Allowable Charitable Deduction \$100,000 \$96,000

Overall Limitation on Itemized Deductions (2/37) - (\$5,189.19)

Allowable Itemized Deductions \$100,000 \$90,810

Taxes Avoided \$37,000 \$33,600

Tax Benefit with Donation in 2025 \$3,400

The taxpayer who makes the donation in 2025 rather than 2026 saves an additional \$3,400 in taxes. The savings is even more pronounced at higher income and higher donation levelsin 2025 vs. 2026.

### **Planning Considerations:**

Taxpayers who do not itemize may wish to donate (or keep donating) cash to charitable organizations. They should keep proof of donation, including letters of acknowledgement from each charity. They will receive a deduction of up to \$1,000 (or \$2,000 if married) even if they do not itemize deductions in 2026 or later years.

Higher income taxpayers who itemize their taxes should consider accelerating their donations into 2025, including by donating to a donor advised fund (DAF). A contribution to a DAF allows the taxpayer to take the full deduction in the year of contribution (2025) and the fund will then distribute the cash to charities recommended by the taxpayer in later years. Similarly, taxpayers can consider "bunching" their charitable donations into a tax year in which they expect their overall income to be lower, to avoid or minimize some of the limitations outlined above.

#### **Contact Us for Guidance**

The new tax legislation in the OBBB is expansive and complex, impacting individuals, businesses, and estates alike. Please see our previous **email blast** regarding this new legislation. Contact your Johnson O'Connor service team member today to discuss how the new law impacts you or your business.

## **RELATED SERVICES**

Business & Nonprofit Tax
Individuals, Trusts & Estates Tax
State & Local Tax