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One Big Beautiful Bill – Revisiting Qualified Charitable Distributions, Donor Advised Funds and Donation of Appreciated Assets

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Taxpayers focused on charitable giving need to be mindful of changes on the horizon as a result of the recent tax legislation. In a broad sense, charitable gifts made in 2026 and later will be subject to more limits on deductibility than gifts made in 2025. As a result, taxpayers may want to consider accelerating their charitable giving into 2025 to ensure they receive the best income tax outcome from their charitable plan. We recently posted an article diving into this issue. You can read it **here**.

In addition to considering accelerating charitable gifts into the 2025 tax year, there are other tried-and-true charitable planning strategies to be aware of, including qualified charitable distributions (QCDs), use of Donor Advised Funds (DAFs), and gifting of appreciated securities. Your team at Johnson O'Connor is here to help you plan for the most tax-efficient charitable giving strategy.

Qualified Charitable Distributions (QCDs)

QCDs are distributions from a taxpayer's traditional individual retirement account (IRA) made ***directly*** to certain charitable organizations. With a QCD, the taxpayer can satisfy the requirement to annually withdraw a portion of his IRA (the RMD) by instead directing that withdrawal to a charity. The taxpayer excludes the amount that passed to the charity from his gross income, while simultaneously satisfying his RMD requirement. The maximum allowed QCD in 2025 is $108,000.

Because a QCD reduces the taxpayer's gross income, it can indirectly help the taxpayer qualify for other tax benefits, such as increasing the deductibility of medical expenses, limiting the taxability of social security benefits, and reducing the risk of income-based phase-outs of certain tax credits. A QCD is also valuable because it does not require the taxpayer to itemize their deductions; a taxpayer can take a QCD and still use their full standard deduction to offset other income.

There are a few key rules to be aware of: Taxpayers must be 70 ½ years old at time of distribution; the QCD must be made directly from the IRA to a qualified charity – the funds cannot pass first to the IRA owner; and the QCD cannot be made to a donor advised fund.

With careful planning, QCDs are a great tax planning tool to manage AGI, meet RMD requirements and satisfy charitable giving goals. They require coordination between the custodian of the IRA and the charity so they are generally not best used for irregular, small gifts, but for regular or large planned gifts they can be an excellent tax strategy.

Donor Advised Funds (DAFs)

DAFs are charitable investment accounts established and maintained by certain public charities to receive donations of cash or securities. The fund receives, holds, and invests the taxpayer's contribution and the taxpayer can make recommendations to the fund for disbursements to qualified charities over time.

Taxpayers receive an immediate tax deduction for their donation to a DAF in the year of contribution, even if the grants are paid to specific charities in later years. This feature is important because it allows the taxpayer to bunch their donations in one year to maximize deductibility. For example, a taxpayer could make two years' worth of their intended annual donations in one year by gifting to a DAF, thereby allowing them to take a higher itemized deduction in one year and using the full standard deduction in the alternate year. Or, when planning around looming limitations on charitable deductions coming in 2026, a taxpayer could fund a DAF in 2025 before the limits go into effect in order to maximize the deduction. The DAF then allows the donor to spread out the grants to charities over the same time period they normally would have while still maximizing the tax benefits in the 2025 tax year. The contributions to the DAF grow tax-free, allowing assets to appreciate over time and increase the impact of the gift.

Donation of Appreciated Assets

While many taxpayers satisfy their charitable giving through cash donations, a donation of appreciated assets – such as publicly traded securities – can often provide the best tax outcome because it allows the taxpayer to deduct the full fair market value of the stock given to the charity without triggering the capital gains tax that would occur if the taxpayer first sold the stock and then donated the cash to a charity.

By way of an example, assume a taxpayer paid $50,000 to acquire Apple stock years ago (their basis) and that stock is now worth $100,000. If they sold the stock, they would pay federal income taxes on $50,000 of gain (sale price minus basis). At a maximum rate of 23.8%, that would be $11,900 in federal income taxes, leaving the taxpayer $88,100 in cash to donate to charity.

Instead, if our taxpayer gifts the Apple stock directly to the charity, the charity receives assets worth $100,000, and the taxpayer takes an income tax deduction of $100,000. Both the charity and the taxpayer are better off in the second scenario.

As always, there are rules and caveats. Unlike a donation of cash, which can offset up to 60% of the taxpayer's income, a donation of appreciated stock can only offset 30% of annual income, with the balance carried over for up to five years. To achieve the tax results modeled above, the taxpayer has to donate *long-term* property, meaning stock held more than one year prior to gifting. Donating short-term property results in a tax deduction only equal to the basis in the property.

When planned well, a donation of appreciated stock, particularly in connection with a large gift to a DAF in 2025, can maximize tax savings and achieve charitable planning goals.

Tax Changes on the Horizon

As year-end approaches, and with looming changes to the deductibility of charitable gifts, now is the time to consider how to maximize charitable giving in 2025 and forward. Qualified Charitable Distributions, Donor Advised Funds and Donation of Appreciated Assets are fantastic tools to donate in a tax advantaged way. If considering DAFs or qualified appreciated stock, donating in 2025 will provide a larger tax benefit than 2026. Keep in mind, QCDs, DAFs and qualified appreciated stock donations may take lead time to set up with the receiving charities. For a 2025 donation, be sure to complete the donation before the end of the year so it counts for this year's taxes.

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.

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