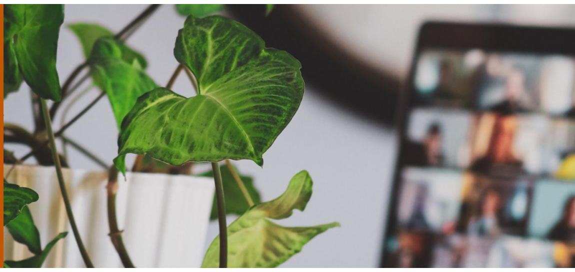
New Charitable Contribution Rules Call for Careful 2026 Tax Planning



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Recent tax law changes may reduce the value of charitable contribution deductions for some taxpayers beginning with the 2026 tax year. Individuals who regularly make charitable gifts should review their giving strategies to ensure they continue to maximize available tax benefits.

What's Changing?

Under the new rules, taxpayers who itemize deductions generally may deduct charitable contributions only to the extent their contributions exceed **0.5% of adjusted gross income (AGI)**. Contributions below that threshold may not generate a current-year charitable deduction.

For example, a taxpayer with AGI of $500,000 would have a 0.5% threshold of $2,500. If the taxpayer contributes $10,000 to qualified charities during the year, only the amount exceeding the threshold would be eligible for a charitable deduction.

For taxpayers who are **not** itemizing deductions, beginning in 2026 the IRS will allow a deduction of up to $1,000 (for a single filer) or $2,000 (for joint married filers) for cash gifts to qualified organizations. Noncash gifts (such as household goods or appreciated stock) do not qualify for this special deduction. But this new deduction is only eligible for those who are not otherwise itemizing their deductions.

Finally, for taxpayers in the highest tax bracket there is an additional limitation on overall itemized deductions, which erodes the tax benefit of charitable deductions from a 37% benefit to a 35% benefit.

Who Is Most Likely to Be Affected?

The new limitation on itemized deductions may particularly affect:

- Individuals who make modest annual charitable gifts.
- Taxpayers whose charitable giving is spread evenly from year to year.
- Retirees who regularly donate to charities but do not make large contributions in any single year.
- High-income taxpayers who expect to itemize deductions.

Planning Opportunities

In light of the new rules, taxpayers should consider whether it makes sense to:

Bundle (or "Bunch") Charitable Contributions

Rather than making similar gifts every year, some taxpayers may benefit from consolidating several years of planned donations into a single year. This approach may increase the likelihood that charitable contributions significantly exceed the AGI threshold and generate a larger tax benefit.

Utilize Donor-Advised Funds

A donor-advised fund may allow taxpayers to make a larger contribution in one tax year while continuing to support charities over time. Depending on a taxpayer's circumstances, this may help maximize available deductions.

Donate Appreciated Investments instead of Cash

Donating long-term appreciated stocks or other investments can be a tax-efficient way to support charities. By donating the investment directly, you may receive a deduction for its full value while avoiding capital gains tax on the appreciation. This strategy can provide greater tax savings than selling the investment and donating the cash proceeds. Note that a taxpayer who donates appreciated stock is still subject to the general limitations noted above on charitable gifts and is also subject to a 30% AGI limitation that may limit amount of the gift that can be deducted in one particular year.

Consider Qualified Charitable Distributions (QCDs)

Qualified Charitable Distributions (QCDs) from IRAs are not subject to the new charitable deduction floor. A QCD is a transfer directly from an IRA account to a qualified charity, made by a taxpayer age 70 ½ or older. This transfer can satisfy the IRA owner's required minimum distribution and reduce the taxpayer's overall income, as the taxable portion of the distribution is reduced by the amount directed to the charity (up to a cap of $111,000 in 2026). For taxpayers age 70 ½ or older a QCD can be a very effective tax strategy as not only is the charitable component not subject to the new floor, but it can also lower Medicare IRMAA surcharges, reduce taxation of Social Security benefits, preserve other deductions or credits tied to AGI and, in some cases, lower state taxable income.

What Should You Do Now?

Taxpayers who regularly make charitable contributions should revisit their charitable giving strategy before year-end. In particular, consideration should be given to:

- Expected AGI levels.
- Whether itemized deductions will exceed the standard deduction.
- Timing of planned charitable gifts.
- Use of donor-advised funds.
- Utilization of appreciated investments.
- Potential QCD opportunities for IRA owners.

If you would like assistance in evaluating how the new charitable contribution limitations may affect your personal tax situation, please contact our office to discuss planning opportunities tailored to your circumstances.

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