ONE BIG BEAUTIFUL BILL ACT PROVIDES INCENTIVE TO DONATE IN 2025

The recently passed One Big Beautiful Bill Act (OBBBA) includes several changes to charitable contribution deductions beginning January 1, 2026. You have a short window between now and December 31 to review your charitable plan to assess whether you should accelerate planned donations prior to the changes in the law.

What Tax Law Changes Negatively Impact Charitable Deductions After 2025?

- A new floor limitation on itemized charitable deductions equal to 0.5% of your Adjusted Gross Income (AGI).
- A new limitation on total itemized deductions for taxpayers subject to the 37% tax bracket.

What Do These Changes Mean for Charitable Giving?

A portion of your itemized charitable deduction will be disallowed starting in 2026. The 0.5% floor for charitable deductions will apply to all taxpayers who itemize deductions, regardless of income level or filing status. This means, for example, there will be a $500 reduction in the charitable deduction for every $100,000 of AGI.

For individuals subject to the highest tax bracket, the tax benefit received for total itemized deductions, including charitable contributions, could be reduced by up to 2%. The result is to limit itemized deductions to no more than a 35% benefit.

Hypothetical Example: An individual with $1 million of AGI plans to donate $300,000 to a Donor Advised Fund or a public charity.

- In 2025: No AGI floor or deduction cap and full $300,000 potentially deductible at 37%, yielding a $111,000 tax benefit.
- In 2026: $5,000 (0.5% of AGI) is non-deductible, while the remaining $295,000 is deductible at 35%, yielding a $103,250 tax benefit. This is a net loss of $7,750 in tax benefit compared to 2025.

What Should You Do in Response to the Tax Law Changes?

Those who have long-term charitable donation plans should consider making those donations in 2025, either to a Donor Advised Fund where the funds can be doled out to recipient charities over time, or perhaps directly to satisfy a pledge or provide other support to favorite charities. This is especially beneficial to those who hold highly appreciated securities, which may be donated at fair market value without the recognition of capital gain (subject to certain limitations).

The charitable deduction rules are complex, and the planning implications will differ based on your particular facts and circumstances. You should contact your financial and tax advisors to better understand the impact of the law changes and to determine whether you should adjust your donation plans to maximize your tax deduction.

We have more detailed explanations and illustrations of the new charitable income tax rules available here: https://chevychasetrust.com/obbba25-charitable-giving/.