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Charitable Giving Under the Big Beautiful Bill – Impact of AGI Limits

The "One Big Beautiful Bill Act" (OBBBA), signed into law on July 4, 2025, introduces several key changes to the tax treatment of charitable contributions under federal tax law. These provisions, most of which take effect beginning with the 2026 tax year, affect both individual tax itemizers and non-itemizers and are expected to influence donor behavior, planning strategies, and charitable fundraising activity. The following summarizes the major updates related to charitable contributions and their interaction with Adjusted Gross Income (AGI).

Above the Line Deduction for Non-Itemizers

- Beginning in 2026, individuals who do not itemize deductions are eligible to claim an above-the-line deduction for cash contributions to qualified public charities, limited to $1,000 for single filers and $2,000 for joint filers.
- This 'universal charitable deduction' effectively reinstates and makes permanent the temporary provision from 2020–2021.
- The deduction limits of $1,000 for single filers and $2,000 for joint filers will not be indexed for inflation.
- Donations to donor-advised funds and private foundations are not eligible for this deduction.

AGI Floor for Itemizers

- For taxpayers who itemize, the OBBBA introduced an AGI floor of 0.5% for charitable contribution deductions.
  - Example: A taxpayer with $1 million of AGI will not be able to deduct the first $5,000 of their total annual charitable contributions.
- The floor applies to all types of charitable gifts, including conservation easement contributions.
- Any disallowed amounts can be carried forward into future years if they exceed the annual contribution limits.

AGI Based Deduction Limits

- The new law makes permanent in that individuals can deduct cash gifts to public charities up to 60% of their AGI. It also maintains the existing rule in that a donation of appreciated assets—like stocks or real estate held for over a year—are deductible up to 30% of income.
- Non-cash property donations that are not classified as capital gain property are still subject to a 50% AGI limit.

- Excess contributions may be carried forward for up to five years.
- High-income taxpayers face an additional limitation — the maximum tax benefit from charitable deductions is capped at 35%, even if their marginal tax rate is higher.
    - Example: With the new 35% cap on tax savings from charitable deductions, a taxpayer in the highest tax bracket who donates $10,000 would receive a maximum tax benefit of $3,500—even though their marginal tax rate is 37%. Under the previous rules, that same donation would have reduced their taxes by $3,700.

Corporate Charitable Contributions

- Corporations are now subject to a new 1% AGI floor before charitable deductions are allowed, with no taxable income limitation.
- This replaces the previous provision, which permitted charitable deductions up to 10% of their taxable income with no AGI floor.
- Businesses may shift their gifting strategies by consolidating donations into larger, single-year gifts.

Planning Implications and Strategies

- High-income donors may wish to 'bunch' or accelerate their contributions into 2025 to take advantage of current, more favorable rules before the AGI floor and deduction caps take effect.
- For those who have donor advised funds, it might be more tax advantageous to make contributions to these funds before the end of 2025.
- Qualified Charitable Distributions (QCDs) from IRAs remain unaffected and continue to provide a tax-efficient method of giving for taxpayers age 70½ and older.
    - The rules governing Required Minimum Distributions (RMDs) remain unchanged; Qualified Charitable Distributions (QCDs) continue to count toward satisfying RMD requirements for individuals aged 73 and older.
- The expanded SALT deduction cap ($40,000 for joint filers in 2025) will allow more taxpayers to itemize deductions and will therefore allow them to take advantage of the charitable contribution deduction.

Bottom Line

Our team at FLSV will continue to monitor The Act and will keep you apprised of any changes or tax planning opportunities that may present themselves. As always, our goal is to assist you in obtaining the maximum possible benefit for your personal tax situation. Please feel free to contact us if you would like to discuss any of these topics in further detail.

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