Charitable Giving Post OBBA: Navigating New Tax Implications
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Introduction

As we approach the year 2026, significant changes in tax regulations are set to impact charitable giving. The One, Big, Beautiful Bill (OBBA) introduces new floors and limits on itemized deductions, particularly affecting taxpayers who itemize and those in the highest tax brackets. For taxpayers who itemize, 2025 will be the last chance to fully deduct every dollar of giving, making this year a good option to consider for maximizing gifting. As financial planners, it is essential to help our clients understand how these changes may impact their charitable giving strategies.

IMPACTS FROM OBBA ON TAXPAYERS WHO ITEMIZE

Floor on Charitable Contributions Starting in 2026

Historically, charitable deductions for taxpayers who itemize have been limited based on adjusted gross income (AGI). Several limitations exist depending on the type of asset gifted. For instance, cash deductions are limited to 60% of AGI, while deductions from appreciated stock are limited to 30% of AGI.

Beginning in 2026, a new floor will be implemented for taxpayers who itemize, limiting how much of their gifts will be counted towards a deduction. This floor will be set at 0.5% of AGI. For example, a taxpayer with $1,000,000 in AGI will have the first $5,000 of charitable gifts disallowed for tax deductions.

Importantly, this floor does not apply to those gifting through a Qualified Charitable Distribution (QCD) from a Traditional IRA. Retirees using their required minimum distribution for charitable giving need not worry about this impacting their planning.

Limits on Itemized Deductions for Those in the 37% Tax Bracket

Starting in 2026, itemized deductions will be reduced for those in the highest 37% tax bracket ($626,350 for single filers and $751,600 for joint filers in 2025). Itemized deductions will be reduced by 2/37 of the lesser of:

- Your total itemized deductions, or
- The amount by which your AGI exceeds the 37% tax bracket threshold.

This limit effectively raises taxes by reducing the value of deductions. The impact on the effective tax increase would be 2% of the total itemized deductions or the amount exceeding the 37% tax bracket.

Example:

A household with $100,000 in total itemized deductions in the 37% tax bracket would see their $100,000 in deductions reduced by 2/37 or $5,405.41. Reducing deductions by $5,405.41 at a 37% tax rate would result in a $2,000 increase in taxes, or 2% of the initial total $100,000 deductions.

Planning Impact and Opportunities to Consider

The new changes to charitable and itemized deductions in 2026 will primarily impact taxpayers at the highest income levels. Even then, the changes should not negate the benefits of charitable giving. Taxpayers will still be able to take deductions for charitable gifts, though those deductions will be limited compared to 2025.

Using the earlier example of a taxpayer with $1,000,000 in AGI who has $5,000 in charitable deductions disallowed for tax purposes:

- A $5,000 deduction disallowed at a 37% tax bracket would mean a $1,850 increase in taxes.
- If that taxpayer also had $100,000 in total itemized deductions and was limited by the changes next year, that would factor in the $2,000 tax increase already covered.
- Altogether, for someone with $1,000,000 in gross income, these new changes would amount to a $3,850 increase in taxes compared to 2025.

For those impacted by these changes who want to maximize their charitable deductions, bunching planned gifting in 2025 before the changes take effect may be a smart strategy. Using a Donor Advised Fund to manage charitable gifting will continue to be an impactful strategy. A Donor Advised Fund allows lump sum donations to receive a full tax deduction in the year they are made, while permitting the donor control over the distribution over time.

IMPACTS FROM OBBA ON TAXPAYERS TAKING THE STANDARD DEDUCTION

Charitable Deductions Permitted Without Having to Itemize

Beginning in 2026, taxpayers taking the standard deduction will be allowed to take deductions on charitable gifts up to a certain limit. Single tax-filers will be permitted a maximum of $1,000 in charitable deductions, while joint tax-filers will be allowed $2,000 in charitable deductions.

Planning Impact and Opportunities to Consider

For taxpayers or households gifting modestly to charities throughout the year, it may make sense to hold off on further gifts in 2025 and plan to make them in 2026 instead. For those who have been gifting, start keeping track of gifts next year if you haven't already. This also applies to those frequently donating items, as deductions will be available for such donations next year.

Taxpayers who haven't been gifting charitably may find 2026 the year to begin doing so. If you do not have specific charities in mind, consider gifting into a Donor Advised Fund. Gifts to a Donor Advised Fund allow full charitable deductions in the year they are made. The money from these donations can be invested and potentially grow tax-free, helping to gift more to charities over time. Some providers of Donor Advised Funds have annual minimum gifts as low as $50, allowing the bulk of the money to remain invested until you elect to gift more.

To learn more about charitable gifting considerations, connect with an IMA Private Wealth Advisor today