



Charitable Giving and Tax Benefits

Navigating New Rules While Maximizing Impact

Charitable giving has long served dual purposes for many investors: supporting causes they care about while receiving valuable tax benefits. However, the One Big Beautiful Bill Act has fundamentally altered the charitable giving landscape, with significant changes taking effect in 2026. Understanding these changes and acting strategically in 2025 can help you preserve maximum tax benefits while maintaining or even increasing your philanthropic impact.

The New Charitable Giving Landscape: What's Changing in 2026

Beginning with the 2026 tax year, two major changes will affect how taxpayers benefit from charitable giving. First, itemizers will face a new 0.5% adjusted gross income floor on charitable deductions. This means that only charitable contributions exceeding 0.5% of your AGI will be deductible. For a taxpayer with \$200,000 in AGI, the first \$1,000 of charitable contributions will not be deductible.

Second, and potentially more impactful for high-income taxpayers, is a new 35% cap on the value of itemized deductions. Regardless of your marginal tax rate, itemized deductions—including charitable contributions—will only reduce your tax liability by a maximum of 35%. For taxpayers in the 37% federal bracket, this effectively reduces the tax benefit of charitable giving by more than 5%.

These changes don't make charitable giving less valuable, but they do change the calculus for tax planning. A \$50,000 charitable contribution from someone in the 37% bracket would save \$18,500 in federal taxes under current 2025 rules, but only \$17,500 under the 2026 rules—a difference of \$1,000. When scaled across multiple years and combined with state taxes, the impact becomes significant.

However, there's positive news as well: the legislation permanently extended the 60% of AGI limit for cash contributions to public charities and introduced a new universal charitable deduction of \$1,000 for single filers and \$2,000 for married couples filing jointly, even for those taking the standard deduction. This universal deduction, effective in 2026, makes charitable giving more accessible to all taxpayers, though it notably excludes contributions to donor-advised funds, supporting organizations, and private foundations.

The Power of Bunching: Accelerating Contributions into 2025

Given the less favorable rules taking effect in 2026, bunching charitable contributions into 2025 has become an especially powerful strategy. Bunching involves consolidating multiple years' worth of planned charitable contributions into a single tax year to maximize the itemized deduction benefit, then taking the standard deduction in subsequent years.

Here's how it works in practice: Suppose you typically contribute \$20,000 annually to charity. Under the new rules, you might consider contributing \$60,000 to a donor-advised fund in 2025, which allows you to claim the full deduction in 2025 at current rates without the 0.5% AGI floor, then take the standard deduction in 2026 and 2027 while still making your intended \$20,000 annual grants to charities.

For 2025, the standard deduction is \$15,750 for single filers and \$31,500 for married couples filing jointly. If your total itemized deductions (including charitable contributions) don't significantly exceed these amounts, bunching becomes particularly valuable. By concentrating multiple years of giving into one year,

you clear the standard deduction threshold and capture meaningful tax benefits.

Donor-advised funds are the ideal vehicle for bunching strategies. When you contribute to a donor-advised fund, you receive an immediate tax deduction for the full contribution amount, even though you'll distribute the funds to operating charities over multiple years. The contributed assets can grow tax-free within the fund, potentially allowing you to grant even more to charity over time. You maintain full advisory privileges over which charities receive grants and when, giving you the flexibility to continue your regular giving pattern while capturing the tax benefits of bunching.

The urgency of implementing this strategy in 2025 cannot be overstated. This may be your last opportunity to receive the full tax benefit of charitable deductions under current rules before the 0.5% floor and 35% cap take effect.

Donating Appreciated Assets: The Most Tax-Efficient Strategy

For investors holding appreciated securities, donating these assets directly to charity or to a donor-advised fund represents one of the most tax-efficient giving strategies available. When you donate long-term appreciated assets (held for more than one year) to a public charity or donor-advised fund, you receive two significant tax benefits: you can deduct the full fair market value of the assets (up to 30% of your AGI), and you avoid paying capital gains taxes on the appreciation.

Consider this example: You purchased stock ten years ago for \$20,000 that's now worth \$100,000. If you sell the stock and donate the cash proceeds, you'll owe capital gains tax on the \$80,000 gain. Assuming a 20% federal long-term capital gains rate plus the 3.8% net investment income tax, you'd owe \$19,040 in federal taxes, leaving you only \$80,960 to donate.

Instead, if you donate the appreciated stock directly to charity, you avoid the \$19,040 tax on the gain and can deduct the full \$100,000 value (subject to the 30% of AGI limitation). For a taxpayer in the 37% federal bracket, the deduction saves \$37,000 in taxes. The combined tax benefit—avoiding \$19,040 in capital gains taxes and receiving a \$37,000 deduction—totals \$56,040, dramatically increasing the efficiency of your giving.

This strategy works with various appreciated assets beyond publicly traded stock, including mutual fund shares, real estate, closely held business interests, and cryptocurrency. For assets requiring appraisals (generally non-publicly traded assets with claimed values exceeding \$5,000), proper documentation

becomes critical. You'll need a qualified appraisal and must file Form 8283 with your tax return.

The key is identifying highly appreciated assets with significant embedded gains. These provide the greatest tax benefit when donated rather than sold. Review your portfolio with your financial advisor to identify the most tax-efficient assets to use for charitable giving.

Tax Credits vs. Tax Deductions: Understanding the Difference

While most charitable giving generates tax deductions, certain contributions may qualify for tax credits, which are significantly more valuable. A tax credit reduces your tax liability dollar-for-dollar, whereas a deduction merely reduces your taxable income.

Starting in 2027, the One Big Beautiful Bill Act introduces a new nonrefundable tax credit up to \$1,700 (or 100% of the contribution, whichever is lower) for donations to K-12 scholarship-granting organizations. This credit is particularly valuable because it directly offsets your tax bill rather than just reducing taxable income.

However, these specialized credits are relatively rare in the charitable giving context. The vast majority of charitable contributions will continue to generate deductions rather than credits. Understanding this distinction helps you set realistic expectations about the tax benefits of your giving.

Some states offer tax credits for certain types of charitable contributions, such as credits for donations to state educational improvement organizations or rural hospital support. These state-level credits can sometimes be combined with federal deductions, creating exceptional tax benefits. Consult with a tax advisor familiar with your state's laws to identify any available credits.

Qualified Charitable Distributions: A Strategy for Retirees

For investors age 70½ or older, qualified charitable distributions (QCDs) from IRAs offer unique advantages that make them particularly attractive in the new tax environment. In 2025, you can direct up to \$108,000 directly from your IRA to qualified operating charities (not to donor-advised funds or private foundations).

QCDs are excluded from your taxable income entirely—they're not reported as income and then deducted, they simply never hit your tax return. This creates several benefits: the distribution counts toward your required minimum distribution without increasing your adjusted gross income, potentially keeping you in a lower tax bracket, reducing your Medicare Part B and

Part D premiums, minimizing the taxation of Social Security benefits, and avoiding the impact of the Alternative Minimum Tax.

In the context of the 2026 changes, QCDs become even more valuable. Because they reduce your AGI rather than functioning as an itemized deduction, they're not subject to the new 0.5% AGI floor or the 35% cap on itemized deductions. For retirees who take the standard deduction, QCDs provide a tax benefit for charitable giving that wouldn't otherwise be available. Consider using QCDs as part of your regular charitable giving strategy if you're eligible. The \$108,000 annual limit is quite generous for most donors, and the tax benefits are straightforward and guaranteed. Many major charities and educational institutions can facilitate QCDs directly from your IRA custodian.

Special Considerations for High-Net-Worth Donors

High-net-worth individuals engaged in significant philanthropic activity should carefully consider their charitable giving structure in light of the new rules. Private foundations, donor-advised funds, and charitable trusts each offer different advantages and limitations under the new law.

Private foundations provide maximum control over charitable assets and allow you to create a lasting philanthropic legacy, often involving multiple generations of your family in grant-making decisions. However, contributions to private foundations are subject to lower percentage limitations (generally 30% of AGI for cash and 20% for appreciated property) and are not eligible for the new universal charitable deduction available to non-itemizers.

Donor-advised funds offer many of the benefits of private foundations with less administrative complexity and more generous percentage limitations (60% of AGI for cash, 30% for appreciated property). However, they similarly don't qualify for the universal charitable deduction, and you have advisory rather than absolute control over the assets.

For donors considering \$1 million or more in lifetime charitable giving, engaging with a philanthropic advisor can help structure your giving to maximize both impact and tax efficiency. Complex strategies involving charitable lead trusts, charitable remainder trusts, and charitable gift annuities may provide benefits beyond simple outright giving, particularly for estate planning purposes.

Documenting Your Charitable Contributions

Proper documentation is essential for claiming charitable deductions. For any contribution of \$250 or more, you need a written acknowledgment from the charity stating the amount contributed and whether you received any goods or services in return.

For contributions of \$500 or more in non-cash property, you must complete Form 8283.

For contributions of non-cash property valued at more than \$5,000, you generally need a qualified appraisal.

The appraisal must be conducted by a qualified appraiser, completed no earlier than 60 days before the contribution date, and obtained before the due date of your tax return (including extensions).

Keep thorough records of all charitable contributions throughout the year, including receipts, acknowledgment letters, and fair market value documentation for non-cash gifts. With heightened IRS scrutiny of charitable deductions, especially for high-value non-cash contributions, meticulous documentation is your best defense in the event of an audit.

The charitable giving landscape has shifted significantly with the passage of the One Big Beautiful Bill Act. While the changes effective in 2026 may reduce the tax benefits of charitable giving for some taxpayers, strategic planning in 2025 can help you maximize your deductions under current favorable rules. Whether through bunching contributions, donating appreciated assets, utilizing qualified charitable distributions, or employing donor-advised funds, multiple strategies exist to preserve tax benefits while supporting the causes that matter most to you. As with all tax planning, work closely with your financial and tax advisors to implement strategies aligned with your unique circumstances and philanthropic goals.

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