Lowenstein Sandler

Client Alert

# Trusts & Estates

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## OBBBA Provisions Impact Charitable Contribution Deductions

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On July 4, President Donald Trump signed into law the One Big Beautiful Bill Act (H.R. 1) (OBBBA). While OBBBA contains various provisions that impact high-net-worth individuals, this alert focuses on OBBBA provisions relating to charitable contribution deductions.

OBBBA makes four key changes to an individual's ability to deduct charitable contributions on their income tax returns.

### 1. Increased Tax Deduction for Non-Itemizers

Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (effective in 2020 and 2021), individuals who did not itemize could deduct $300 ($600 for joint returns) of cash contributions to certain charitable organizations. That provision was allowed to expire. OBBBA brings back this deduction and increases the amount to $1,000 for individuals and $2,000 for married persons filing jointly. The normal substantiation rules apply, and only contributions to public charities that are neither donor-advised funds nor supporting organizations qualify. This provision is effective starting January 1, 2026.

### 2. Creation of a Floor for Charitable Deductions for Itemizers

Prior to OBBBA, there was no separate threshold for deductions for contributions to charities. OBBBA provides that a person itemizing their deductions can only deduct charitable contributions to the extent that the amount contributed exceeds 0.5 percent of the person's adjusted gross income (AGI). By way of example, if a person's AGI for 2026 is $1 million, the first $5,000 of charitable donations will not be deductible. This limitation is effective starting January 1, 2026.

### 3. Maximum Benefit From Charitable Deduction Limited to 35 Percent Tax Rate

Prior to OBBBA, charitable deductions served to reduce a taxpayer's income such that the benefit of the deduction was calculated at the highest marginal tax bracket for the taxpayer. OBBBA provides that the maximum benefit for a charitable contribution deduction shall be calculated using a 35 percent marginal income tax rate if the taxpayer's actual highest tax rate is in the 37 percent or the 35 percent marginal income tax bracket. This limitation is effective starting January 1, 2026.

### 4. Larger Donations to Public Charities Made Deductible

Prior to OBBBA, a limitation that capped cash donations to public charities at 60 percent of the taxpayer's AGI was set to expire on December 31, 2025, after which the limitation would have reverted to 50 percent of AGI. OBBBA made the 60 percent of AGI limitation permanent.

Planning Tip: The 0.5 percent floor and limitation of the charitable deduction to the 35 percent marginal rate are not effective for 2025, so if a large charitable gift is contemplated, consider making it before the end of the year. 2025 may be a good year to add money to a donor-advised fund.

Planning Tip: Both itemizers and non-itemizers will benefit from paying attention to the timing of their charitable contributions. Clients who don't typically itemize could lower their taxes by bunching their charitable contributions into one year and itemizing them on that year's return. The bunching can be accomplished by making a large one-time contribution to a donor-advised fund and itemizing for that year. The result will be even better if the year of contribution is a year in which the client's income is relatively low in order to depress the 0.5 percent floor; however, care will have to be taken to stay under the relevant AGI limitations applicable to the client's income for the year.

If you would like to discuss strategic planning with regard to your charitable contributions, please contact your Lowenstein Sandler lawyers.

## Contacts

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