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OBBBA Charitable Rules: **What High-Income Donors Should Know Before 2026**

A great mentor once told me, “The best thing about making money is getting to give it away!” Myriad reasons exist to give money away to charity, but tax mitigation generally shouldn’t be high on that list. Until the IRS imposes a 100% effective tax, from a purely economic standpoint a donor would retain more of their money by not giving it away. But, *if* someone is charitably inclined for one or more of the infinite great reasons to financially support charitable organizations, then being smart (i.e., tax efficient) about it is clearly advisable.

It's in that vein that we look ahead to some coming changes to the tax code. Beginning in 2026, two specific provisions of the OBBBA will negatively impact the deductibility of charitable giving. As such, we are writing to suggest that altering one’s approach (i.e., by accelerating some giving in 2025) might be worth consideration.

How It Works

We did write about them both briefly in our recent Legislative Alert [[HYPERLINK](#)] summarizing several OBBBA provisions (see “Charitable Limits” section and footnote thereto). As mentioned briefly in that update, there are two provisions of OBBBA that may have a modest cooling effect on charitable giving for high wage earners beginning in 2026. One hems in the impact of the first dollars gifted, and the other imposes a 35% cap on the deductibility, regardless of whether a taxpayer is in the 35% bracket or higher.

The 0.5% Floor: The First Dollars Don’t Count

For individuals who itemize deductions (as opposed to those using the standard deduction, which will be \$32,200 for married joint filers in 2026), the deductibility of charitable contributions only begins for charitable giving that exceeds 0.5% of the donor’s adjusted gross income (“AGI”).

As an example, a married couple with \$400,000 of AGI and who gives \$10,000 to charity would only be able to deduct \$8,000 on their federal income tax return. That’s because the first \$2,000 is under the 0.5% AGI floor.

The 35% Cap: The Benefit Shrinks at the Top

Itemized deductions, the most significant of which is the charitable deduction, will begin to cap out at 35% in 2026. For taxpayers whose income exceeds the 35% income tax

threshold, this imposes a new limit on the deductibility of charitable giving. For 37% filers, the value of itemized deductions will be limited to a 35% marginal benefit, resulting in a 2% loss of value on the income tax benefits of charitable giving.

Into Action

Perhaps an example would illustrate the point better. Let's assume Grant and Charity Goodwill are married taxpayers with annual earned income of \$1,000,000 (including in 2025 and in 2026), and let's further assume that the Goodwills believe in tithing (i.e., the practice of giving one's income to charity). So they will give away \$100,000 per year.

	Deductible Amount	Effective Tax Rate Applied	Tax Savings	After-Tax Cost of \$100k Gift
Current law (2025)	\$100,000	37%	\$37,000	\$63,000
2026 – 0.5% floor only	\$95,000	37%	\$35,150	\$64,850
2026 – floor & 35 % cap	\$95,000	35%	\$33,250	\$66,750

Grant and Charity will receive a \$37k “benefit” to the charitable contribution in 2025, but that benefit gets reduced next year to \$33,250. The hypothetical “cost” to the donors for these changes is \$3,750, making it about 6% more expensive for the Goodwill to tithe under the new rules.

There Is A Solution

It's worth noting that if someone exclusively makes charitable contributions from their IRA (as Qualified Charitable Distributions or QCDs), then they entirely bypass these two limitations on the utility of charitable giving. By its nature, a QCD is a direct transfer from an IRA to a qualified charity (which cannot include a Donor Advised Fund), meaning the entire amount of the QCD is excluded from taxable income. It's not an itemized deduction, so it bypasses both the 0.5% floor and the 35% cap.

For the rest of us, there are a couple of ways to bypass or limit the impact of these two new provisions. The only way to bypass it would be to accelerate several years of charitable giving in 2025 before these new rules take effect in 2026. The way to mitigate it for those with the flexibility to do so would be to “bunch” multiple years of giving in a single year. That wouldn't do anything to address the 35% cap, mind you. But it would mean that the 0.5% floor is avoided for the years in which you “prepay” your giving.

A Vision for You

As mentioned at the start, we do not believe that taxes are a good reason to be charitable. The act of giving is its own reward. By planning well, we can preserve more of the resources we use in service to causes that matter to us. Another mentor often says, “all of

the time, talent, and treasures we enjoy aren't of our own making, and the only way to keep them is to give them freely." True generosity has always promised that giving isn't a loss, but a way of keeping what really counts. As we head into the holiday season, let us also say that we are grateful for the opportunity to be of service to our wonderful clients.

We would be delighted to help assess whether accelerating and/or bunching charitable gifts would make sense for your particular circumstances.

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