What You Need to Know About How the OBBBA Impacts Charitable Giving Deductions

When people think about charitable giving, they often think about the impact their generosity has on causes they care about. But for the financially savvy, there's also another factor in play: the tax benefit. A well-timed charitable contribution can reduce taxable income, unlock other deductions, or even create multi-year planning opportunities. That's why any change in the tax rules surrounding charitable deductions is important to understand well in advance.

The recently passed One Big Beautiful Bill Act is making several adjustments to the way charitable contributions are handled beginning in 2026. These changes will affect both individual taxpayers and corporations. While one new rule slightly expands the deduction for people who don't itemize, most of the provisions actually reduce the tax savings you can get from giving. This makes 2025 an especially important year to review your giving strategy, since the new rules begin next year.

Let's walk through what's changing, how it might affect you, and what planning opportunities may exist between now and the end of next year.

A New Deduction for Non-Itemizers

For years, taxpayers who claimed the standard deduction had very little incentive to give from a tax perspective, since charitable deductions were only available to those who itemized. That changes in 2026, when a brand-new deduction becomes available: up to $1,000 per person, or $2,000 for joint filers, for cash contributions.

It's worth noting a few key details. First, this deduction is limited to cash gifts; donating property, clothing, or stock won't count. Second, the limit is fixed -- there's no carryforward if you give more, and it won't be indexed for inflation. That means the real value of this deduction will shrink over time.

For many taxpayers, this will be a modest benefit. But if you normally claim the standard deduction, there may be value in holding off on some of your giving until 2026 in order to capture it.

New Floor on Itemized Charitable Deductions

The bigger shift comes for those who itemize. Starting in 2026, your charitable contributions will only be deductible to the extent that they exceed 0.5% of your adjusted gross income (AGI).

Here's how that plays out in practice: if your AGI is $400,000, the first $2,000 of charitable contributions will not count toward your deduction. Only the portion above that floor is deductible. And unlike some other limits, these disallowed amounts cannot be carried forward to future years.

This change makes the timing of your giving more important. If your income varies significantly from year to year, shifting contributions into a year when your AGI is lower can maximize the benefit. On the other hand, if you have a particularly high-income year, a portion of your giving may not provide the tax savings you expect.

Corporate Deduction Floor

Businesses also face new limits. Corporations currently can deduct charitable contributions up to 10% of taxable income. Beginning in 2026, that deduction will be subject to a 1% floor as well.

To illustrate, consider a corporation with $1,000,000 of taxable income. Today, it could deduct up to $100,000 of charitable contributions. Under the new rules, that same corporation will have to reduce the maximum deduction by $10,000 (1% of income), leaving only $90,000 deductible in the current year. That means businesses making large donations should consider acting before the end of 2025 to avoid losing part of their deduction.

High-Income Limitation on Itemized Deductions

While the old “Pease” limitation was permanently terminated, there is a new itemized deduction limitation. Instead of applying once you hit a set income threshold, the new rule reduces deductions for anyone in the 37% tax bracket.

The effect is that charitable deductions are worth only 35% instead of 37%. For example, a $100,000 gift that would save $37,000 in tax in 2025 may only save about $33,250 in 2026. The higher the gift, the larger the gap.

For high-income taxpayers, this change is especially important. Accelerating contributions into 2025 -- possibly through a donor-advised fund -- can lock in higher tax savings under the current rules.

Turning Charitable Contributions into Business Deductions

One final planning opportunity is worth mentioning. Under existing law, certain contributions that have a direct connection to your trade or business may qualify as business expenses rather than charitable deductions. For example, payments to a nonprofit for advertising or sponsorships that generate goodwill and customer recognition can sometimes be deducted as business expenses.

The advantage is that business deductions reduce AGI, taxable income, and potentially self-employment tax as well. They can also unlock other benefits tied to income limits. However, they do reduce Qualified Business Income (QBI), which can affect other calculations.

This is an area where careful planning is essential. The best approach depends on your business structure, your income levels, and your broader tax strategy.

Pulling It All Together

So what does all this mean? In short, the tax landscape for charitable giving is about to get more restrictive. For individuals, there will be small benefits if you don’t itemize, but larger hurdles if you do. For corporations, the new floor reduces the current-year value of big gifts. And for high-income taxpayers, the benefit of giving is effectively capped at a lower tax rate.

That makes 2025 a critical year for planning. You have one final year to take advantage of the current rules before these limitations set in. If charitable giving is an important part of your financial life, this is the time to review your strategy, consider whether to accelerate contributions, and evaluate whether structuring gifts as business expenses might provide better results.

As always, the best strategy depends on your specific numbers -- your income, your giving goals, and your business structure. I encourage you to reach out so we can run projections and determine the most tax-efficient way to give over the next few years. By planning ahead, we can help ensure that your generosity continues to benefit both the causes you care about and your bottom line.