November 24, 2025

Philanthropy and Tax Strategy Update: OBBBA's New Charitable Contribution Rules – An Incentive to Give This Year

What You Should Know Before Year-End

With the passage of the One Big Beautiful Bill Act (OBBBA) in July 2025, Congress, among many other changes, introduced two new rules that limit the federal income tax benefit of charitable gifts.

1. "Floor" on Deductibility for Itemizers

For taxpayers who itemize deductions, only the portion of charitable contributions that exceeds 0.5% of adjusted gross income will be deductible starting in 2026.

This change will reduce the overall benefit of charitable contributions for taxpayers who itemize. For most taxpayers, the effect will be modest, although it may be significant for those with very high gross income.

2. "Ceiling" on Itemized Deduction Benefits

Taxpayers in the highest (37%) tax bracket with income over $640,600 (single filers) or $768,700 (married filing jointly) also will face a new limitation on the amount of all itemized deductions, including charitable contributions.

These taxpayers will see all their itemized deductions reduced by 2/37 (approximately 5.4%) of a defined amount. The reduction applies to the lesser of (1) the taxpayer's total itemized deductions or (2) the taxpayer's income that exceeds the dollar amount at which the 37% rate bracket applies. As a result of the ceiling, the maximum tax-rate savings for charitable contributions is 35%.
The ceiling appears to apply not just to individuals but also to income tax deductions for estates and trusts, except for tax-exempt charitable trusts.

3. Example of the Effect of the Floor and the Ceiling

In 2026, assume a married couple with $2 million of adjusted gross income has $200,000 of charitable contributions:

- Step 1 – 0.5% floor: $2,000,000 x 0.5% = $10,000. The charitable contribution deduction is reduced to $190,000.
- Step 2 – 2/37 reduction at ceiling: $190,000 deduction is reduced by 2/37 ($10,270).
- Total charitable deduction becomes $179,730 ($200,000 - $10,000 - $10,270 = $179,730).

In percentage terms, the charitable deduction is reduced by slightly more than 10% compared with 2025.

Qualified Charitable Distributions from IRAs Untouched

Though the calculation of a charitable deduction becomes more complex beginning in 2026, the advantages of qualified charitable distributions (QCDs) from individual retirement plans (IRAs) remain intact.

The provision for QCDs allows taxpayers over age 70 1/2 to use a direct distribution from an IRA to many types of charities to satisfy the required minimum distribution from the IRA, up to a capped amount ($108,000 in 2025, estimated to go up to $115,000 in 2026).

QCDs are excluded – not deducted – from taxable income. Exclusion from income has always been preferable to a deduction. Exclusions from income typically apply to state income tax as well as federal income tax, even in states that do not provide an income tax charitable deduction – sometimes creating a state tax benefit unavailable for other charitable contributions. Exclusions have never been subject to the charitable deduction limits that preceded OBBBA, and they are not subject to the 0.5% floor or the ceiling under the new law.

You may wish to consult your advisors before year-end to compare the tax impact of charitable gifts made in 2025 versus future years as well as to discuss other ways to achieve a greater tax benefit from your charitable contributions.

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