

Philanthropic planning in 2025

Last call for a full deduction...Act now!

The One Big Beautiful Bill Act (the Act or the BBB) became law on July 4, 2025. Donors should be aware of the urgency needed for year-end 2025 planning to take advantage of the full deduction available through the end of 2025. Starting in 2026, the rules for charitable tax deductions change.

Itemizing deductions

For 2025, charitable contributions are only deductible as itemized deductions. Beginning in 2026, if itemizing, charitable contributions will be deductible only to the extent that they exceed 0.5% of the taxpayer's contribution base (the floor). For example, with a contribution base of \$200,000, the first \$1,000 of charitable contributions would not be deductible. Also, for those who pay income tax at the highest marginal tax rate (37%), in 2026, itemized deductions will be limited to 35 cents on the dollar (as opposed to 37 cents).

To consider in 2025

- Bunch gifts into 2025 to accelerate gifts planned for future years. Bunching increases itemized deductions in a single tax year so that itemized deductions would exceed the standard deduction. Increased limits for the state and local tax (SALT) deduction may increase the donor's ability to itemize. Charitable contributions advanced into 2025 will avoid the 0.5% floor that begins in 2026 and may be allowed a 5-year carry-forward.
- Making charitable gifts of qualified, appreciated publicly traded stock, privately held stock or other non-cash assets may be more powerful in 2025 than in 2026. Making these gifts in 2025 will avoid the 0.5% floor and may provide future capital gains tax savings.
- Donors who don't presently know which charities they would like to receive their contributions may consider funding a donor-advised fund (DAF) or private foundation in 2025. They would receive a charitable deduction in the 2025 tax year. Future transfers to other charitable organizations can be made from the DAF or foundation.
- Another option is to use a charitable remainder trust to diversify low basis, appreciated assets while retaining a stream of payments and receiving a charitable deduction in 2025.
- Donors should be cognizant of their contribution base and carry-forward limitations. Beginning in 2026, their carry-forwards may be subject to the floor.



Donors who don't presently know which charities they would like to receive their contributions may consider funding a DAF or private foundation in 2025. Receive a charitable deduction in the 2025 tax year.

Tax basis is important

If itemizing, when considering a donation of appreciated assets, donors might consider whether they will obtain greater tax benefits by donating the appreciated asset to charity or selling the asset and giving cash.

- Gifts of cash to public charities (including DAFs) may be deductible up to 60% of your contribution base.
- Gifts of appreciated assets to public charities have lower deduction limits but may avoid future capital gains taxes.
- There is no substitute for analysis.

When not itemizing

Even if donors don't itemize (electing to use the standard deduction) and don't receive a charitable deduction, they can still give to charity and receive tax benefits.

Qualified charitable distributions (QCDs)

If over 70½, donors making QCDs from their IRA directly to qualified charities can fulfill their charitable goals. Subject to limitations, they can donate up to \$108,000 in 2025 using QCDs.

- A QCD is not deductible for federal income tax purposes, but some or all of the QCD will be excluded from their gross income.
- If the donor is required to take a required minimum distribution (RMD), a QCD reduces the RMD amount that they must receive. A QCD is not included in income, therefore making a QCD can create a lower RMD and less income on which to pay tax. Many tax and benefit thresholds are measured from adjusted gross income (AGI). Too much AGI could cause donors to miss out on benefits like the new \$6,000 deduction for seniors, cause them to pay a higher Medicare premium, or to pay net investment income tax.
- Donors can make a one-time election to fund a qualified-split interest trust (charitable remainder trust, charitable lead trust, charitable gift annuity) with up to \$54,000 of a QCD in 2025. Donors and their spouses can receive a stream of payments from the trust with the remainder being paid to charity when they die.



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Roth conversions

Many donors consider converting their traditional IRA to a Roth IRA. The amount converted is ordinary income subject to tax. Combining a Roth conversion and a charitable gift may be more tax efficient in 2025 than in 2026.

A conversion/charitable deduction strategy can make sense in 2025:

- The Roth conversion generates income.
- Itemized charitable deductions in 2025 are not subject to the 0.5% floor (see above); additional income raises the floor.
- In 2026, at the top marginal rate, itemized deductions will be less valuable (see above).
- Always consult a tax professional for analysis: If a Roth conversion makes financial sense at this time, consider avoiding the 0.5% floor coming in 2026. Waiting a year may change the analysis.

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