Harbor Country Day School

One Big Beautiful Bill (OBBB): Impact on Charitable Giving

On July 4, 2025, the One Big Beautiful Bill Act (OBBB) was signed into law. The legislation preserves several key elements of the 2017 Tax Cuts and Jobs Act (TCJA) while introducing new provisions that may shape charitable giving in meaningful ways. This article provides an overview of the new rules, updates to the TCJA, and other developments that may be relevant for donors as they plan their philanthropic strategies. Several provisions of the legislation take effect beginning with the 2025 tax year, making it essential to evaluate how these changes may influence your current charitable planning strategies.

New tax provisions introduced by OBBB

OBBB introduces three new tax provisions that could significantly influence decisions on charitable giving strategies, offering both expanded opportunities and important considerations for donors.

1. **Above-the-line charitable deductions for non-itemizers**
   Beginning in the 2026 tax year, a reinstated deduction allows non-itemizers to deduct cash donations to charity—up to $1,000 for single filers or $2,000 for married couples filing jointly. This provision is not indexed for future inflation, and some types of donations are ineligible for the deduction, including to donor-advised funds or private non-operating foundations.
   Implication: Since the TCJA increased the standard deduction, only about 10% of households have itemized deductions,1 making them ineligible for charitable giving tax deductions. With the introduction of this provision, all households are now eligible to receive a tax deduction for qualified charitable contributions, potentially increasing participation in giving. A similar provision during the COVID-19 pandemic allowed a $300 deduction for charitable giving under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Approximately 90 million taxpayers claimed it in 2020—2021.

2. **New limits to deductions for itemizers in the top tax bracket**
   The new legislation caps the tax benefits of itemized charitable deductions at 35%, even for those in the 37% marginal tax bracket. In other words, these high-income filers donating $1,000 would receive a $350 deduction instead of

the current $370. This change goes into effect in the 2026 tax year.
Implication: Donors in higher tax brackets who are considering a significant philanthropic gift may want to think about accelerating their gift to 2025 to maximize their deduction under the current marginal rate before the new cap goes into effect.

3. **New floor on deductions for itemizers and corporations**
   Effective in the 2026 tax year, itemizers who make charitable contributions will only be able to claim a tax deduction to the extent that their qualified contributions exceed 0.5% of their adjusted gross income (AGI). For example, a couple with an AGI of $300,000 could only deduct charitable donations in excess of $1,500. Similarly, corporations will only be entitled to deduct charitable contributions to qualified charities that exceed 1% of their taxable income.
   Implication: High-income individuals who itemize deductions should carefully consider the timing and amounts of their giving, and the strategies to maximize their deduction. For example, a bunching strategy or an approach of making larger gifts with less frequency can be more effective under the new rules. Corporations may want to take steps to proactively manage (and potentially increase) their giving to ensure they exceed the 1% threshold.

Extensions of the 2017 Tax Cuts and Jobs Act

Several provisions from the TCJA were made permanent or extended under OBBB, continuing to influence charitable giving strategies and tax planning.

- **Income tax brackets**: Under the new law, the current income tax brackets have been made permanent. Effective in the 2025 tax year, income tax brackets are 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
- **New standard deduction amount**s: Beginning with the 2025 tax year, the standard deduction, which was raised by the TCJA, increases further by $1,000 for single filers and $2,000 for married couples filing jointly. This brings the deduction to $15,750 for single filers and $31,500 for joint filers, with future amounts indexed for inflation.
- **Adjusted gross income limits**: The new law permanently extends the existing ability to deduct up to 60% of AGI for cash contributions to 501(c)(3) public charities.
- **Estate and gift tax exemption**: The federal estate and gift tax exemption has been increased to $15 million for the 2026 tax year, with future adjustments for inflation. This means the majority of estates (more than 99%) will not be subject to federal estate taxes, making lifetime charitable giving the primary way to receive a charitable deduction for most taxpayers.

Other key tax changes

Several other updates are worth noting for their potential impact on charitable giving strategies and decision-making.

- **Increased state and local tax (SALT) deduction**
  Under OBBB, the SALT deduction for itemizers has been increased from the $10,000 set by the TCJA to $40,000. Going into effect for the 2025 tax year, the cap will increase annually by 1% through 2029, and then revert to $10,000 in 2030. This increased deduction phases out for taxpayers with incomes over $500,000.
  Implication: If the increased SALT deduction results in a higher number of itemizers, it could potentially allow them to deduct more of their charitable contributions. However, it is unclear how many filers will benefit from itemizing with the increased deduction or how many will continue to take the standard deduction.
- **Tax deduction for donations to organizations providing school vouchers**
  Under OBBB, a new tax credit goes into effect in 2027, allowing filers to claim up to $1,700 per taxpayer for donations to organizations that grant scholarships to private or religious K—12 schools. This credit is available to all individual taxpayers, regardless of whether they itemize.
  Implication: Donors who support these organizations should make sure to keep track of their paperwork, regardless of whether they plan to deduct other charitable giving.
- **Higher tax rates on university endowments**
  OBBB introduces a new tiered endowment tax on university endowment investment earnings, with rates ranging from 1.4% to 8%. The highest rate applies to institutions with above $2 million in endowment assets per student. Private colleges with fewer than 3,000 tuition-paying students are exempt from the tax. While only 56 colleges and universities are currently subject to the higher rate, this number is expected to increase over time.

  Implication: The change may make unrestricted current support—such as to an annual fund—more helpful to some institutions. Donors who support colleges and universities may want to check with their chosen institution to understand how their donation can provide the greatest value.

Source: Fidelity Charitable

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