

## Insights

### Charitable Contribution Deduction Changes in the One Big Beautiful Bill Act and Their Impact on Charitable Giving

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On July 4, 2025, President Donald J. Trump signed Public Law No. 119-21, better known as the One Big Beautiful Bill Act (OBBBA). The OBBBA introduces significant changes to the tax treatment of charitable contributions for both corporations and individuals, effective for taxable years beginning after December 31, 2025. These changes, aimed at offsetting the cost of extending tax cuts and introducing new tax breaks, have the potential to reshape charitable giving strategies for donors and the nonprofit organizations that rely on their support.

#### Background

The OBBBA originated as a cornerstone of President Trump's 2024 campaign platform, promising to build upon the 2017 Tax Cuts and Jobs Act (TCJA) enacted in his first term with broader and permanent reforms. Introduced in the House of Representatives in May 2025 and signed into law on July 4, 2025, as part of the budget reconciliation process for fiscal year 2025, the OBBBA reflects a renewed Republican focus on tax relief, economic growth, and regulatory rollback. The legislation was drafted in response to the pending expiration of key TCJA provisions, rising concerns about inflation, and political pressure to reduce tax burdens on families and small businesses. The bill passed narrowly along party lines. The charitable deduction changes impact both individual and corporate contributions and establish a new scholarship tax credit.

#### Corporate Charitable Contributions: New 1% Floor

Prior to the OBBBA, corporations could deduct charitable contributions made to qualified organizations subject to rules set forth in Section 170 of the Code. Notably, a corporation's deduction for charitable contributions was limited to 10% of its taxable income before considering the charitable deduction, any net operating loss (NOL) carrybacks, dividends-received deductions under Section 243, 244, and 245 of the Code, and certain other special deductions. If contributions exceeded the 10% limit, the excess could be carried forward for up to five years on a first-in, first-out basis.<sup>1</sup>

After the OBBBA, corporations may only deduct charitable contributions exceeding 1% of their taxable income. Contributions below this threshold are not immediately deductible but may be carried forward, subject to strict restrictions for future deductibility.<sup>2</sup> In addition, the existing 10% taxable income cap on corporate charitable deductions remains in place after the OBBBA, meaning deductions for corporate taxpayers are limited to contributions between the 1% floor and the 10% ceiling. The portion of contributions that fall below the 1% floor, and are therefore not immediately deductible, may be carried forward for up to five years, but they may

only be carried forward from taxable years in which the corporation's total charitable contributions exceeded the ceiling.

**Example:** In 2026, corporation X has taxable income of \$1M. During 2026, X makes aggregate charitable contributions of \$120,000. The floor and ceiling restrictions under Code section 170(b)(2)(A) operate as follows:

- The floor reduces the contributions eligible for deduction to \$110,000 ( $\$120,000 - 1\%$  of taxable income ( $\$10,000$ ) = \$110,000).
- The ceiling limits the deduction for the year to \$100,000 (10% of taxable income).
- The amount exceeding the ceiling, considering the Floor (\$10,000), may be carried forward for up to five years.
- Also, because the ceiling was exceeded, the amount of the deduction disallowed due to the floor (\$10,000) may be carried forward for up to five years.
- In other words, X may carry forward a total of \$20,000 for up to five years and use the remaining deduction in future years on a first-in, first-out basis (after first deducting contributions made during the then-current taxable year).

## Individual Charitable Contributions: A Mixed Bag

### New Restrictions

In addition to imposing the new floor for corporate charitable contributions, the OBBBA introduced several significant changes for individual taxpayers who itemize deductions. Starting in 2026, itemizers may only deduct charitable contributions to the extent the total exceeds 0.5% of their adjusted gross income (AGI). This effectively limits the deductibility of smaller contributions, particularly for lower- and middle-income taxpayers, and complements the new 1% floor for corporate charitable contributions discussed previously.

In addition to the individual floor, the OBBBA includes a provision further limiting the tax benefit of itemized deductions for high-income individuals. For taxpayers in the top 37% bracket, the value of itemized deductions—including charitable contributions—is capped at 35 cents per dollar, reducing the effective benefit by approximately 4.6%.

However, the OBBBA contained some positive news for individual donors as well. It makes permanent the 60% AGI limit for cash contributions to public charities, a provision originally enacted by the TCJA. The TCJA raised the AGI limitation from 50% to 60% of AGI, meaning a taxpayer could deduct cash contributions to public charities totaling up to 60% of their AGI in a single year.<sup>3</sup> Without the change under the OBBBA, the limit would have reverted to 50% of AGI after 2025.

### New Opportunities

The TCJA significantly increased the standard deduction beginning in 2018.<sup>4</sup> By raising the standard deduction, TCJA significantly reduced the number of taxpayers who itemize deductions, meaning most taxpayers received no tax benefit for charitable donations unless they gave enough to exceed the standard deduction.<sup>5</sup> To alleviate this decline, the OBBBA introduced a permanent above-the-line deduction which allows non-itemizers to deduct up to \$1,000 (single filers) or \$2,000 (joint filers) for cash contributions to public charities, excluding donor-advised funds.<sup>6</sup> This change takes effect in 2026.<sup>7</sup>

Finally, the OBBBA introduced a new nonrefundable tax credit for individual taxpayers who make qualifying contributions to eligible scholarship-granting organizations. This provision was aimed at expanding educational opportunities, particularly in the private and religious school sectors, by incentivizing private donations. The credit is available in an amount up to \$5,000 or 10% of AGI, whichever is less, and is available to all taxpayers, including non-itemizers.<sup>8</sup>

### Potential Impact on Charitable Giving

The OBBBA's charitable provisions balance new opportunities, such as the non-itemizer deduction and scholarship credit, with challenges posed by the 1% corporate and 0.5% individual floors. Donors, as well as charities relying on public donations from individual and corporate donors, should begin to plan now for 2026 in an effort to think strategically about new opportunities and minimize any negative impact from the OBBBA on their giving and fundraising efforts.

### Planning Considerations for Donors

- **Individuals:** May need to consider bunching contributions to exceed the 0.5% AGI floor, using donor-advised funds (though excluded from the non-itemizer deduction) for flexibility.
- **Corporations:** Evaluate giving programs to ensure contributions exceed the 1% floor.
- **Timing Considerations:** With the changes effective in 2026, 2025 is a critical year to review giving strategies under current rules.

### Implications for Charities

- **Fundraising Strategies:** Emphasize campaigns that encourage larger, multi-year pledges.
- **Donor Engagement:** Educate donors about the above-the-line deduction.
- **Budget Planning:** Prepare for potential volatility in donations due to bunching or reduced small-donor contributions.

If you have questions about the updated charitable contribution deduction rules or any of the other provisions of the OBBBA, contact Kendall A. Schnurpel, Rodney S. Retzner, or your Krieg DeVault attorney today.

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<sup>1</sup>Under Section 170(d)(2) of the Code, no carryback of charitable contributions was allowed.

<sup>2</sup>See IRC §170(b)(2)(A).

<sup>3</sup>If a taxpayer donates more than this limit, the excess may be carried forward for up to 5 years and deducted in future years, subject to the same AGI limits. See IRC §170(d)(1)(A).

<sup>4</sup>Prior to the TCJA, the standard deductions for single taxpayers and married taxpayers filing jointly were \$6,350 and \$12,700, respectively. The TCJA increased these amounts to \$12,000 and \$24,000, respectively. See IRC §63(c)(7).

<sup>5</sup>See: How did the TCJA change the standard deduction and itemized deductions? | Tax Policy Center.

<sup>6</sup>See IRC §170(p).

<sup>7</sup>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.

<sup>8</sup>See IRC §25F.