



## How the One Big Beautiful Bill Act Reshapes Charitable Giving & Donor-Advised Fund Strategies

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### Overview

The One Big Beautiful Bill Act (OBBBA), signed into law July 2025, introduces significant changes to the U.S. tax code. New provisions allow **strategic donors to benefit more than ever - if they plan carefully.**

This memo highlights the changes that directly impact charitable giving and Donor-Advised Fund strategies, along with guidance on how donors can adapt to take full advantage of the new rules.

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### Key Provisions Impacting Charitable Giving:

#### →Higher Standard Deduction (In Effect 2025)

- New baseline deductions:
  - \$15,750 (Single)
  - \$31,500 (Married Joint)
- Fewer taxpayers will itemize deductions most years, reducing the automatic tax benefit of routine annual charitable giving.

**What this means:** Giving smaller amounts sporadically is now less tax-efficient. It's important to "bunch" gifts strategically in certain years to exceed the itemization threshold.

### →Above-the-Line Deduction for Non-Itemizers (with Limits) (In Effect 2026)

- Non-itemizers can deduct:
  - Up to \$1,000 (single) or \$2,000 (joint)
  - Only for cash gifts to 501(c)(3) public charities
- Donor-Advised Funds, private foundations, and supporting organizations are excluded. This is because above-the-line deductions are intended for direct gifts that flow immediately to charitable use, rather than being held in intermediary vehicles like Donor-Advised Funds.

**What this means:** This offers modest relief to small donors, but does nothing for contributions to Donor-Advised Funds. High-capacity donors will still need to itemize to benefit from Donor-Advised Fund contributions.

### →0.5% Adjusted Gross Income (AGI) Floor on Charitable Deductions (In Effect 2026)

- Itemized charitable deductions are only allowed above a new 0.5% AGI floor.
  - Example: A taxpayer with \$400,000 AGI can only deduct the portion of giving that exceeds \$2,000.

**What this means:** Smaller annual gifts lose much of their tax benefit. Donors should consider bundling gifts into fewer, larger years to clear the floor and maximize deductibility.

### →Cap on Deduction Value for Top Bracket Donors (In Effect 2026)

- For taxpayers in the top 37% bracket, the *tax savings* from charitable deductions are limited to the value they would provide in the 35% bracket - effectively capping the *benefit*, not the deduction amount itself.
- This reduces the marginal tax value of giving for high-income earners.

**What this means:** While Donor-Advised Funds still provide flexibility in timing deductions, wealthy donors should act strategically and make contributions during high-income years, being mindful of the *tax benefit limitation*.

## **→60% AGI Limit on Cash Contributions Made Permanent (In Effect 2026)**

- Taxpayers can continue to deduct cash gifts to public charities (including Donor-Advised Funds) up to 60% of AGI.
- This provision is now permanent.

What this means: Donors who itemize can still gain substantial tax benefits from Donor-Advised Fund contributions, especially in years with unusually high income.

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## **Takeaway: Strategic Planning Is Essential**

The One Big Beautiful Bill Act doesn't eliminate charitable giving incentives - it just raises the bar for accessing them. To make the most of the new rules:

### **Donors Should:**

- Use charitable "bunching" to clear the standard deduction and AGI floor.
- Contribute to Donor-Advised Funds during high-income years to lock in the highest deduction value.
- Combine Donor-Advised Fund giving with direct gifts to public charities for more diversified tax benefits.
- Review giving strategies annually with a trusted advisor.

### **Donors Should Avoid:**

- Expecting full deductibility for small annual gifts (unless using the limited above-the-line deduction).
  - Waiting until December to plan - an effective tax strategy requires early action.
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## **The Bottom Line**

The One Big Beautiful Bill Act adds complexity, but it also creates new opportunities for thoughtful, well-planned philanthropy. Used wisely, Donor-Advised Funds remain among the most flexible and powerful tools for tax-efficient giving.

If you'd like help modeling these scenarios or would like to adapt this memo for clients or board members, please feel free to reach out - [support@uicharitable.org](mailto:support@uicharitable.org).