

STRATEGIC GUIDE FOR CHARITABLE DEDUCTION RULES CHANGES IN 2026

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Starting January 1, 2026, the One Big Beautiful Bill Act (OBBA) significantly alters the charitable deduction rules. These updates include new limits, floors, and caps on deductions, as well as an above-the-line benefit for taxpayers who take the standard deduction. Understanding these rules is essential for maximizing tax benefits and aligning charitable goals with financial planning.



Universal Deduction for Non-Itemizers

- \$1,000 for single filers and \$2,000 for married couples filing jointly.
- Applies only to cash gifts to public charities. Donations to donor-advised funds (DAF) and private foundations are excluded.
- This deduction is above-the-line, reducing taxable income without using itemized deductions.

AGI Floor for Itemizers

- Only contributions exceeding 0.5% of Adjusted Gross Income (AGI) qualify for a deduction.
- Example: AGI of \$200,000 → the first \$1,000 of donations are not deductible.

Limit on Itemized Deductions for High-Income Taxpayers

- For those in the 37% tax bracket, the value of all itemized deductions—including charitable contributions, is limited to 35%.

Percentage Limits Remain

- Cash gifts: deductible up to 60% of AGI for donations to public charities.
- Cash gifts: deductible up to 50% of AGI for donations to private charities.
- Appreciated securities: deductible up to 30% of AGI to public charities, 20% of AGI private foundations.
- Non-cash donations: deductible up to 50% of AGI to public charities, 30% of AGI to private foundations.

Corporate Giving Rules

- Contributions are deductible only if they exceed 1% of taxable income.
- Maximum deduction limited to 10% cap of taxable income is still in place.

Planning for 2025 vs. 2026

- **Front-load donations in 2025** to maximize benefits before new floors and caps apply.
- **Donor-advised funds (DAFs):** Make larger contributions in 2025 to take advantage of the current rules while allowing future grants.
- **Track smaller gifts in 2026**, for non-itemizers to claim the new universal deduction.
- **Consider bunching multiple years of donations into single year.** This strategy can ensure that you exceed the 0.5% AGI floor and itemized deduction thresholds in the year of donations. In the other years, you would generally utilize the standard deduction and the universal charitable deduction.
- **Qualified Charitable Distribution (QCD):** If you are over 70.5 when you take your distribution, consider making charitable contributions to public charities directly from your IRA. QCDs are not subject to the limitations on charitable contributions reported as itemized deductions.
- **Evaluate corporate giving strategies** to ensure compliance with new thresholds.
- **Nongrantor Trusts:** By shifting passive income streams—such as interest, dividends, royalties, and rental income—into a properly structured nongrantor trust, taxpayers can preserve the deductibility of charitable contributions without itemizing. To implement this strategy, the trust instrument must authorize charitable contributions at inception. This approach simplifies compliance, avoids limitations tied to donor income, and maximizes tax efficiency for individuals committed to philanthropy. For those creating new trusts, including charitable authorization provisions, is a best practice that enhances flexibility and long-term planning benefits.

The charitable deduction rules for 2026 introduce both opportunities and challenges for donors. By understanding the new thresholds, caps, and compliance requirements, individuals and corporations can strategically plan their giving to maximize impact and tax efficiency. Early planning and consultation with the professionals at Prager Metis, can provide essential guidance to navigate this evolving landscape.

Have questions or need more information? Please reach out to your Prager Metis professional.

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