

Client Alert

December 2025

Recent Tax Law Changes Affecting Charitable Giving

I. Above-the-Line Charitable Deduction for Non-Itemizers

Beginning in the 2026 tax year, taxpayers who do not itemize deductions will be eligible for an above-the-line deduction for qualified cash contributions to charitable organizations. The allowable deduction is capped at \$1,000 for single filers and \$2,000 for married joint filers. This provision is permanent and will not be adjusted for inflation. Contributions to donor-advised funds and private non-operating foundations are excluded from eligibility. This is not the first time that Congress has instituted an above-the-line cap on cash contributions for non-itemizing taxpayers. Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, non-itemizing taxpayers were allowed a temporary deduction only for cash charitable contributions made to a qualified public charity, capped at \$300 for single filers and \$600 for joint filers.

This change is expected to incentivize charitable giving among taxpayers who claim the standard deduction. Since the Tax Cuts and Jobs Act of 2017 significantly increased the standard deduction, only about 10% of households currently itemize deductions, leaving most taxpayers without a tax benefit for charitable contributions. The reinstated deduction broadens taxpayer access to tax incentives for charitable giving.

II. New Deduction Floor for Itemizers

Effective for the 2026 tax year, taxpayers who itemize deductions will only be able to deduct charitable contributions that exceed 0.5% of their adjusted gross income (AGI). For example, joint filers with an AGI of \$350,000 would need to contribute more than \$1,750 before they would be eligible to claim a charitable deduction.

This change may influence giving strategies for high-income taxpayers. Techniques such as “bunching” contributions—making larger gifts less frequently—could help maximize deductions. Taxpayers may also consider accelerating contributions into 2025 to avoid the impact of the new floor.

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III. Cap on Deduction Benefits for Top Tax Bracket

Starting in the 2026 tax year, taxpayers in the 37% marginal tax bracket will see their charitable deduction benefits capped at 35%, in addition to other current applicable limitations. For instance, a taxpayer with an AGI of \$750,000 who donates \$20,000 would find that \$3,750 of the \$20,000 donation is non-deductible due to the new 0.5% AGI floor, and the tax savings on the balance of the donation (\$16,250) would only be up to \$5,687 at a 35% rate. Under prior rules, the tax savings would be up to \$7,400, determined based on the entire \$20,000 donation amount at a 37% rate. This new 35% cap applies only to itemized deductions and does not affect the above-the-line deduction available to non-itemizers. High-income donors may wish to accelerate planned contributions into 2025 to maximize tax benefits under current law.

IV. Key Considerations for Donors

Donors should reevaluate their charitable giving plans considering these changes. While the expanded above-the-line deduction may encourage participation from non-itemizing taxpayers, high-income donors may see reduced value from their charitable gifts starting in 2026. Key points to consider for maximizing tax efficiency include:

- **Timing:** Accelerating contributions into 2025 may yield greater tax savings before new limitations take effect.
- **Strategic Giving:** Consider giving larger amounts in fewer years or combining planned gifts for intermittent years (“bunching”) to maximize deductions and clear the new 0.5% AGI floor.
- **Planning for 2026:** Non-itemizers should plan to make cash donations to take advantage of the new above-the-line deduction.
- **Diversified Giving:** Combining cash and non-cash gifts may enhance impact and efficiency under the new rules. High earners should factor in the 35% cap when planning for major contributions.

Please contact the Olshan attorney with whom you regularly work or the following Olshan attorneys, if you would like to discuss further or have any questions.

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