It Is in the Giving That We Receive: Federal Charitable Contribution Tax Regime Changes Under the One Big Beautiful Bill Act

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Effective charitable planning was already an intricate and complex process before the passage of the One Big Beautiful Bill Act (OBBBA) in July of 2025. The new legislation, while making swaths of changes to the charitable contribution tax provisions, did not make any headway on streamlining the system. Individuals and businesses will want to keep in mind the changes detailed below to the charitable provisions made by the OBBBA when considering their personal or corporate charitable planning.

Introduction of a 1% Floor for Corporate Contributions

IRC § 170(b)(2)(A) creates a new 1% floor for corporate charitable contributions. Before passage of the OBBBA, there was already a 10% ceiling on corporate charitable giving, which remains in effect. Beginning in tax years after 2025, charitable deductions are allowed only for contributions exceeding 1% of taxable income. Charitable contributions that fail the 1% floor are to be permanently nondeductible, and carryforwards are permitted only for contributions that were disallowed previously because they exceeded the ceiling. This limitation targets corporations making more modest gifts and may lead to lost deductions if this change is not accounted for.

New Adjusted Gross Income 0.5% Floor and Carryforward Provision

IRC §□70(b)(1)(I) introduces a 0.5% adjusted gross income (AGI) floor. This means that charitable contributions are deductible only to the extent that they exceed 0.5% of a taxpayer's AGI.

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Under IRC §170(d)(1)(C), taxpayers may now carry forward charitable contributions disallowed solely because they fall under the 0.5% AGI floor. These contributions may be carried forward to each of the five succeeding taxable years. Previously disallowed contributions are subject to both the 0.5% AGI floor in the carryforward year and to the AGI percentage limitation that applied to the contribution in the year it was originally made. Current-year contributions are considered first, and carryforwards may be deducted only if there is remaining room under the applicable AGI percentage limitations.

To work around the 0.5% AGI floor, taxpayers may consider aggregating several years' worth of contributions into one high-giving year in order to exceed the threshold. One effective tool for implementing this approach is the use of a donor-advised fund (DAF). A taxpayer may make a large, one-time contribution to a DAF in a high-income year, exceeding the 0.5% floor and maximizing deductibility under the percentage limitations in IRC § 170(b)(1). The donor can then recommend grants from the DAF to charitable organizations over time, preserving flexibility while frontloading the deduction.

Cap on Itemized Deduction Value for Top-Bracket Taxpayers

Under an amended IRC §68, the income tax benefit of itemized deductions for high-income taxpayers is limited. The value of deductions is reduced by 2/37 of the lesser of: (i) total itemized deductions or (ii) the excess of taxable income over the 37% marginal tax bracket threshold, which is the highest marginal tax bracket for 2026. This limitation on deductions includes charitable deductions.

The amended provision replaces the former Pease limitation, which the Tax Cuts and Jobs Act (TCJA) suspended from 2018 through 2025. The Pease limitation reduced the amount of total itemized deductions by 3% of the amount by which the taxpayer's AGI exceeded a certain threshold, subject to a cap of 80%.

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Above-the-Line Deduction for Standard Deduction Filers for Cash Contributions

Taxpayers who do not itemize deductions can once again benefit from a modest charitable deduction under an amended IRC § 170(p). The above-the-line deduction permits up to $1,000 for single filers and $2,000 for joint filers in cash contributions. These gifts must be made directly to public charities described in IRC § 170(b)(1)(A). Contributions must meet the substantiation standards of IRC § 170, including contemporaneous written acknowledgment requirements under IRC § 170(f)(8), where applicable. This deduction extends a small tax benefit to millions of taxpayers who would otherwise receive no federal tax deduction for charitable giving.

Codification of 60% Limitation for Cash Gifts

The OBBBA codifies the 60% AGI limitation on cash contributions to public charities via an amendment to IRC § 170(b)(1)(G)(i). The 60% AGI limitation had previously been scheduled to expire after 2025 under the TCJA. This change ensures that taxpayers can continue to deduct cash contributions to qualifying organizations up to 60% of their AGI, rather than reverting to the historical 50% AGI cap.

As a welcome change, the revised statute also improves the mechanics of applying the 60% AGI limitation. The 60% ceiling for cash gifts may now be stacked on top of deductions for noncash gifts to the same category of donees, so long as the combined amount does not exceed 60% of AGI. This allows donors to maximize the use of both types of contributions.

Statutory Ordering Rule

The OBBBA also codified a required order in which contributions are applied against the 0.5% floor. This ordering allows the highest-limitation gifts to apply last, which maximizes deductibility:

- Capital gain property to private nonoperating foundations (20% AGI limitation).

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- Capital gain property to 50% charities (30% AGI limitation)
- Cash to 30% limit organizations (30% AGI limitation)
- Qualified conservation easements (50% AGI limitation, or 100% in the case of a qualified farmer or rancher)
- Noncash gifts to public charities (50% AGI limitation)
- Cash gifts to public charities (60% AGI limitation)

Federal Tax Credit for Contributions to Scholarship Granting Organizations

IRC § 25F introduces a federal income tax credit for cash contributions to state-certified scholarship granting organizations (SGOs). The credit equals 100% of the contribution, up to $1,700 per individual ($3,400 for joint filers). The donor must reside in a state that has submitted a certified list of eligible SGOs to the IRS, and the IRS has a list of qualifications on what constitutes an SGO, consistent with IRC § 42. A related provision, IRC § 139K, excludes these scholarships from gross income. The credit applies only to cash gifts and is reduced by any state tax benefit received. States must opt in by submitting eligible SGO lists to the IRS.

If you are interested in learning more about charitable tax planning as part of a larger wealth planning strategy, please contact the author or any attorney in Frost Brown Todd's Wealth Planning and Family Office group. You can also visit our Tax Law Defined® Blog for more insight into the latest developments in tax planning and tax administration.

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