

# Market View/Special Topics

## New Tax Rules Will Transform Charitable Giving

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Taxpayers who itemize and taxpayers in the highest tax bracket will have a reduced benefit from charitable gifts made after 2025. Taxpayers who do not itemize will benefit from a new charitable deduction.

A new tax law, the One Big Beautiful Bill (OB BB), fundamentally changes the landscape of giving by introducing a new **0.5% Adjusted Gross Income (AGI) floor** for charitable contributions. This change, effective for tax years beginning after December 31, 2025, means that a portion of a taxpayer's charitable giving will no longer be deductible.

The new rule is straightforward: taxpayers who itemize can only deduct the portion of charitable contributions that exceed 0.5% of AGI. For example, a taxpayer with a \$500,000 AGI will have a \$2,500 "floor." This means their first \$2,500 in donations will not provide a tax benefit. Only the portion of total contributions above that threshold will be deductible, subject to the existing AGI ceilings (e.g., 30% of AGI for gifts of long-term appreciated assets to public charities). This change could have a significant impact on taxpayers who itemize.

Additionally, beginning in 2026, taxpayers in the highest tax bracket, 37%, will only receive a 35% tax benefit from charitable gifts. Taxpayers who do not itemize will receive a new charitable gift tax deduction for cash gifts to public charities of up to \$1,000 for single filers or \$2,000 for married taxpayers filing jointly.

The new rules create a powerful incentive to rethink charitable giving strategy.



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## Using a Donor-Advised Fund (DAF) to “Bunch” Charitable Donations

A **Donor-Advised Fund (DAF)** is a charitable giving vehicle that has become an increasingly popular tool for tax-savvy donors. Think of it as a personal charitable savings account. You make an irrevocable contribution of cash, stock, or other assets to an entity that is structured as a public charity and sponsors the DAF. Schwab Charitable and Fidelity Charitable are two of the largest DAF sponsors. You receive an immediate tax deduction for that contribution, and then you can recommend grants from the DAF to your favorite charities at your own pace. The money in the DAF can even be invested and grow tax-free over time.

The key benefit is that your tax deduction is tied to when you put the money *into* the DAF, not when you distribute it to a specific charity. This timing difference is what makes a DAF the perfect tool to combat the new AGI floor by making a large DAF contribution in 2025, before the new law takes effect. This strategy is known as **bunching**.

### The Bunching Strategy: Maximizing Your Deduction

Since the OBBA's AGI floor reduces the tax benefit of charitable gifts beginning in 2026, a strategic approach is needed to "bunch" or "bundle" multiple years of charitable gifts in 2025. In future years, the strategy can be used again to limit the impact of the AGI floor. Here's how the bunching strategy works with a DAF:

- 1) Select 2025 or a future High-Income Year:** Bunch this year and in future tax years where your income is particularly high, or where your itemized deductions are already significant.
- 2) Make a Large Contribution to a DAF:** Instead of making smaller annual gifts to multiple charities, you make a large, single contribution to your DAF. This single gift is designed to exceed your new 0.5% AGI floor by a wide margin. For a taxpayer with a \$500,000 AGI, a \$20,000 DAF contribution would easily clear the \$2,500 floor, making the entire amount above the floor (\$17,500) tax-deductible.
- 3) Take the Standard Deduction in "Off-Years":** In the subsequent years, when you are not bunching, you can take the standard deduction on your tax return and, under the new rules, take up to a \$1,000 (single filers) or \$2,000 (married filing jointly) above the line charitable gift deduction (for cash gifts to public charities, not DAFs).
- 4) Distribute Funds from Your DAF:** Even though you are taking the standard deduction in these "off-years," you can continue to recommend grants from your DAF to the charities you care about. Since the deduction was already taken in the bunching year, your giving remains consistent and uninterrupted.

This strategy allows you to benefit from both the standard deduction and the above-the-line charitable gift deduction in most years while still maximizing your charitable deduction in a single, high-impact year. As donors navigate the new tax landscape, the combination of bunching and a DAF will become a cornerstone of effective and tax-efficient philanthropy.

OBBA has other provisions that may affect you. Please feel welcome to reach out to your Birch Hill representative for additional information.

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