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New Tax Law Upends Charitable Giving

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Congress just reshuffled the incentives for charitable giving, providing tens of millions of middle-income households with a tax break while shrinking deductions for corporations and higher earners.

The shake-up inside the "one big, beautiful bill" that President Trump signed July 4 is expected to alter Americans' giving patterns when it takes full effect next year, and billions of dollars are riding on taxpayers' responses to restructured deductions for charitable donations.

Many nonprofit groups say the law's combination of tax and spending changes will hurt charities.

They are bracing for the effects and might need to redesign solicitations to capitalize on the reshaped deductions.

Here's what's new:

Standard deduction

The law expands the higher standard deduction that Congress created in 2017. That move simplified tax filing because people who claim that deduction—now $15,750 for individuals and $31,500 for married couples—don't need to track their deductions. But standard- deduction users haven't gotten a direct incentive for charitable giving because that generally has been available only to people who itemize deductions. After the 2017 law, the share of tax filers itemizing declined to about 10% from 30%.

However, the new law made one key change that pushes the other way. Congress increased the cap on the state and local tax deduction, or SALT, to $40,000 from $10,000.

Now, more people will have total deductions that exceed the standard deduction; that will drive them back to itemizing, where they can get a deduction for charitable giving. About 14.2% of filers will itemize, according to the Tax Foundation.

Non-itemizers

The law creates a permanent charitable deduction for people who don't itemize, reviving and expanding an incentive from 2020 and 2021. It will be capped at $1,000 for individuals and $2,000 for married couples.

Sen. James Lankford (R., Okla.) pushed that change, arguing that it will help nonprofits counter increasing reliance on a handful of larger donors.

The permanent non-itemizer deduction can bolster organizations that tend to get money from middle-income households. That benefits religious groups rather than education and arts groups, whose donors are often higher-income people.

Because many people who claim the standard deduction already give charitable donations, the new deduction rewards some giving that happens anyway, said Roger Colinvaux, a law professor at Catholic University of America. "It seems like there's some built-in waste here," he said.

On the flip side, several new provisions curtail giving incentives.

Individual floor

Taxpayers who itemize won't be able to claim charitable deductions below 0.5% of adjusted gross income. Someone making $200,000 would have a $1,000 floor. A $500 donation would yield no deduction but a $1,200 donation would yield a $200 deduction.

That structure preserves the incentive to give more but would reduce deductions by enough to raise $63 billion through 2034, largely offsetting the $74 billion in lost revenue from the non-itemizer deduction.

Lawmakers discussed a floor for non-itemizers but Lankford said nonprofits argued persuasively that they wanted to tell small-dollar donors they could benefit from giving.

Corporate floor

There is now a similar floor for corporations. They won't get charitable deductions until donations exceed 1% of taxable income.

Corporate giving isn't thoroughly studied, and only a handful of large companies detail tax benefits from donations in securities filings.

Deduction cap

As a revenue-raising measure, the law introduces a cap on the value of deductions, a concept the Obama administration tried and failed to get into law. In the top tax bracket of 37%, itemized deductions— including charitable contributions —will be worth 35%. So a $10,000 donation yields $3,500 in federal tax savings instead of $3,700.

"It will probably very slightly reduce the amount that people give, because people do respond to the tax price of giving," said Jonathan Meer, an economist at Texas A& M University.

That cap and the floors break the direct link between the deduction's value and a taxpayer's marginal tax rate. With the benefit for non-itemizers, Congress is moving charitable incentives slowly in a direction some tax experts have suggested—toward a universal credit with the same percentage benefit for donations regardless of income.

$1,000

Charitable deduction cap for individuals who don't itemize their deductions