Philanthropy and estate planning in the age of OBBBA

What financial advisors need to know about the One Big Beautiful Bill Act (OBBBA) and donor-advised funds (DAFs)

What's in the law: OBBBA (passed July 4, 2025)

Permanently raises the federal estate and gift tax exemption to $15 million per individual (or $30 million per couple), indexed for inflation, effective January 1, 2026.

Maintains current charitable deduction rules:

- Up to 60% of AGI deductible for cash gifts to public charities (including DAFs)
- Up to 30% of AGI for appreciated assets

Slight increase to the standard deduction in 2026

- Single filer: $16,100
- Married filing jointly: $32,200

Why the standard deduction still matters

While the **standard deduction rose slightly** under OBBBA, it remains relatively high — meaning some clients may not cross the threshold to itemize.

For **clients** on the margin or **looking to optimize deductions:**

- Consider bunching several years of charitable gifts into the current year
- Use a Donor Advised Fund (DAF) to take one large deduction this year and grant over time

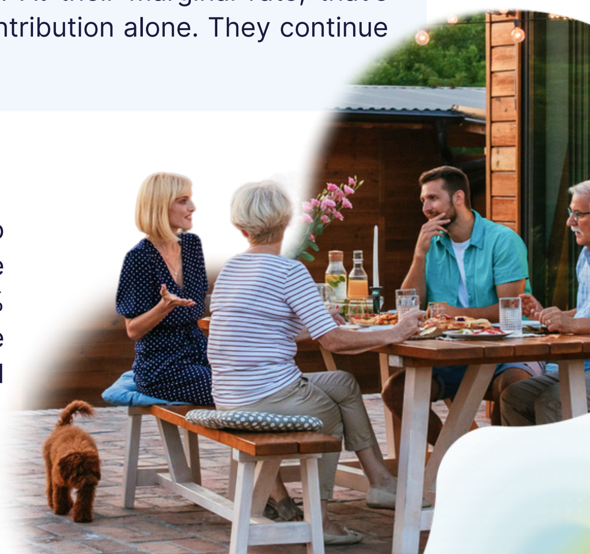
Example:

A married couple with $350,000 in AGI gives $20,000 to charity each year. In a normal giving year, that $20,000 falls well below the $32,200 standard deduction, so they take the standard deduction and receive no additional tax benefit from their charitable gifts.

By contributing three years of giving, $60,000, to a donor-advised fund through a sponsoring charity in a single year, their charitable deduction clears the standard deduction threshold by nearly $28,000, after accounting for the 0.5% AGI floor ($1,750). At their marginal rate, that's roughly $8,900 in additional tax savings from the timing of the contribution alone. They continue granting to charities on their own schedule.

New deduction constraints for high-income clients

The OBBBA preserved the charitable deduction, but introduced two new provisions that change how high-income clients capture it. The AGI floor applies to itemizing donors at any income level. The 35% cap is specific to taxpayers in the top bracket — for 2026, taxable income above $640,600 for single filers and $768,700 for married filing jointly.



The 0.5% AGI floor

Donors can no longer deduct the first 0.5% of their adjusted gross income in the year they make charitable gifts. For a client with $500,000 in AGI, the first $2,500 of charitable giving is non-deductible in that contribution year.

For clients giving through a donor-advised fund:

- The floor applies before normal deduction limits take effect
- Deductions that fall below the floor aren't lost, they carry forward for up to five years
- Bunching several years of giving into a single high-income year remains one of the most efficient ways to clear the floor and capture the full deduction

The 35% cap

For taxpayers in the 37% bracket, the value of charitable deductions is now capped at 35 cents per dollar donated, down from 37 cents under prior law. The deduction itself is unchanged; only the tax benefit it delivers at the top bracket is reduced.

For clients at or near the 37% threshold, this provision rewards planning precision. For clients whose income temporarily spikes into the top bracket for reasons like a business sale, large bonus, or Roth conversion, a substantial charitable contribution that year may bring taxable income back below the 37% threshold, reducing or eliminating the cap's impact on that gift.

What this means for giving strategy

These two provisions don't diminish the value of charitable planning, they reward structure. Clients who give episodically or reactively will feel the friction most. Clients who plan around high-income years, use donor-advised funds through a sponsoring charity to concentrate deductions, and carry forward strategically will find the tax efficiency largely preserved.

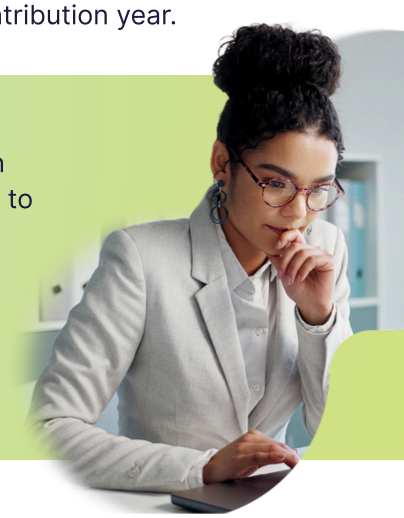
The bunching strategy isn't just about clearing the standard deduction anymore. It's about clearing the AGI floor, maximizing benefit before the cap applies, and doing both in the same contribution year.

Action:

In a high-income year where there's a business exit, liquidity event, or compensation spike, consider contributing to a donor-advised fund. Take the deduction now, grant to charities on your own timeline.

A DAF is a powerful tool to:

- Take a large deduction in a high-income year
- Maintain flexibility in future grantmaking
- Streamline charitable planning alongside estate and tax strategies



Talking points for advisors

"A DAF lets your client take the deduction now, even if you're not ready to decide where to give."

"With the AGI floor and 35% cap now in effect, clients who plan their giving around high-income years will capture the most value."

"Even with the higher estate exemption, removing future appreciation from the estate is still smart."

"A DAF remains a powerful tool to reduce tax burden and establish a legacy."