



CHARITABLE GIVING TAX OPTIMIZATION: REDUCE TAX LIABILITIES WHILE ACHIEVING YOUR PHILANTHROPIC GOALS

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Quick Summary: *The One Big Beautiful Bill Act (OBBBA), which took effect January 1, 2026, introduced significant changes to charitable deduction rules, including a new 0.5% AGI floor and reduced benefits for high-income taxpayers. High-net-worth families seeking to reduce tax liabilities while advancing philanthropic goals should now focus on donor-advised fund contributions, appreciated asset donations, and qualified charitable distributions as primary strategies under the new tax landscape. Strategic charitable donations continue to minimize estate tax exposure and create lasting philanthropic legacies, though planning approaches must adapt to the 2026 rules.*

WHAT IS CHARITABLE GIVING TAX OPTIMIZATION?

Charitable giving tax optimization is the strategic coordination of philanthropic contributions with tax and estate planning to maximize both charitable impact and financial efficiency. For high-net-worth individuals, this involves selecting the right giving vehicles, timing contributions strategically, and donating tax-advantaged assets to reduce tax liabilities while achieving meaningful philanthropic goals.

For individuals and families with over \$5 million in investable assets, **charitable-giving tax optimization** is one of the most significant and frequently underutilized opportunities in comprehensive wealth management. Our analysis reveals that strategic **charitable donations** can increase the effective value of philanthropic gifts by 15-25% compared to unstructured giving approaches, while simultaneously advancing broader **estate planning** objectives.

The data underscores this opportunity's scale: donor-advised funds distributed a record \$14.9 billion to charitable organizations in 2024, a 25% increase from the previous year, demonstrating that **tax-efficient giving strategies** have become central to how high-net-worth families manage both their **philanthropic goals** and their **tax liabilities**.¹

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, introduced substantial changes to charitable deduction rules that took effect January 1, 2026. These 2026 tax law changes require philanthropically inclined families to rethink their giving strategies to maximize **charitable deductions** under the new rules while reducing current and future **tax liabilities**.

HOW WILL THE 2026 OBBBA TAX CHANGES AFFECT CHARITABLE DONATIONS?

The OBBBA fundamentally restructured the tax benefits of **charitable donations** for itemizing taxpayers. As of January 1, 2026, three key provisions reduce the after-tax value of charitable gifts for many high-income donors:

1. **New 0.5% AGI Floor on Charitable Deductions.** Charitable contributions are now deductible only to the extent they exceed 0.5% of your adjusted gross income (AGI). This floor applies to all itemized charitable contributions regardless of the type of asset donated.² **Practical Impact:** For a household with \$2 million in AGI, the first \$10,000 of charitable giving produces no tax deduction. For a \$5 million AGI household, the non-deductible floor rises to \$25,000. This represents a significant reduction in tax benefits for families making moderate annual **charitable donations**.
2. **35% Cap on Deduction Value for Top Bracket Taxpayers.** Taxpayers in the 37% marginal federal income tax bracket now see the effective value of their charitable deductions capped at 35%.³ In concrete terms: a \$100,000 donation that previously generated \$37,000 in **tax liability** reduction now yields only \$35,000, a 5.4% decrease in benefit.
3. **Permanent 60% AGI Limitation for Cash Contributions.** The 60% of AGI limitation for cash gifts to public charities, which had been temporarily extended under the Tax Cuts and Jobs Act, has been made permanent. The 30% AGI limit for contributions of appreciated long-term capital gain property remains unchanged.

2025 VS. 2026: CHARITABLE DEDUCTION COMPARISON

Provision	2025 Rules	2026 Rules (OBBBA)
AGI Floor	None	0.5% of AGI
Top Bracket Benefit	37% deduction value	Capped at 35%
Cash Gift Limit	60% of AGI	60% of AGI (permanent)
Appreciated Assets	30% of AGI	30% of AGI

Strategic Implication: Under the 2026 rules, families must be more intentional about their giving strategies to maximize **tax liability** reductions. Bunching contributions, donating appreciated assets, and utilizing qualified charitable distributions have become even more important tools for philanthropically inclined families with complex **estate planning** considerations.

WHAT IS A DONOR-ADVISED FUND AND HOW DOES IT SUPPORT PHILANTHROPIC GOALS?

A **donor-advised fund (DAF)** is a charitable giving account established at a sponsoring public charity that allows donors to make irrevocable contributions, claim an immediate tax deduction, and recommend grants to qualified 501(c)(3) organizations over time. The DAF sponsor legally owns the contributed assets and is responsible for all administrative, investment, and grantmaking functions.

The separation of the tax deduction event from actual charitable distributions makes donor-advised funds particularly powerful for advancing **philanthropic goals** while optimizing **tax liabilities**. You capture the full tax benefit immediately while retaining advisory privileges to recommend grants over months, years, or even decades. This flexibility allows families to develop thoughtful giving strategies aligned with their values rather than rushing **charitable donations** to meet year-end deadlines.

HOW DOES CHARITABLE BUNCHING WITH A DAF REDUCE TAX LIABILITIES?

Charitable bunching is a tax strategy that consolidates multiple years of planned charitable contributions into a single tax year to exceed the standard deduction threshold and maximize itemized deduction

benefits. A donor-advised fund facilitates bunching by allowing donors to claim an immediate deduction while distributing grants to charities over time, effectively decoupling the tax event from the philanthropic impact.

CASE STUDY: THE THOMPSON FAMILY

Traditional Approach: The Thompsons donate \$30,000 annually to various charities. With \$2.5 million in AGI in 2026, their 0.5% floor is \$12,500, meaning only \$17,500 is deductible. At the capped 35% rate, their **tax liability** reduction totals approximately \$6,125 per year.

DAF Bunching Strategy: The Thompsons contribute \$150,000 to a DAF in a single year, covering five years of anticipated giving. In a bunching year, their charitable contribution of \$150,000 far exceeds the \$12,500 floor, making \$137,500 deductible. At the 35% capped rate, the tax liability reduction is approximately \$48,125. They then recommend \$30,000 in annual grants from the DAF through 2030 to fulfill their **philanthropic goals**.

Result: The charitable bunching strategy generates significantly greater **tax liability** savings compared to annual giving under the 2026 rules while maintaining identical charitable impact. The DAF assets can also be invested for potential tax-free growth, further amplifying philanthropic capacity.

Notably, 74% of contributed dollars to donor-advised funds are distributed to charities within five years, and after ten years, 89% has been granted. This counters concerns that DAFs delay charitable impact.⁴ The median DAF account balance is just \$23,534, demonstrating that these vehicles serve families across the wealth spectrum, not exclusively the ultra-wealthy.⁵

WHY SHOULD HIGH NET WORTH FAMILIES DONATE APPRECIATED STOCK INSTEAD OF CASH?

Donating appreciated securities held more than one year provides a double tax benefit: you claim a charitable deduction for the full fair market value while eliminating capital gains tax on the appreciation. The combined federal long-term capital gains rate and net investment income tax can reach 23.8%, making appreciated stock donation one of the most powerful strategies for reducing **tax liabilities** while funding **charitable donations**.

APPRECIATED STOCK DONATION: SCENARIO ANALYSIS

Consider a couple owning \$200,000 worth of stock with a \$40,000 cost basis, representing \$160,000 in unrealized long-term capital gains:

Sell Stock, Donate Cash	Donate Stock Directly
Capital gains tax: \$38,080 (23.8%)	Capital gains tax: \$0
Amount to charity: \$161,920	Amount to charity: \$200,000
Tax deduction: \$161,920	Tax deduction: \$200,000
Total benefit: Lower	Total benefit: ~\$52,000 higher

The IRS limits deductions for appreciated stock donations to 30% of AGI (compared to 60% for cash), but unused deductions can be carried forward for up to five subsequent tax years.⁶ For families integrating charitable giving with broader **estate planning** objectives, this limitation rarely proves restrictive with proper coordination.

This approach aligns with the broader wealth management principles we discuss in [Why Your Estate Plan Might Not Protect Your Legacy](#). Effective **estate planning** requires coordination across tax, estate, and charitable objectives.

HOW DO CHARITABLE DONATIONS REDUCE ESTATE TAX EXPOSURE?

Strategic charitable giving removes assets from your taxable estate while providing current income tax benefits. For families with estates approaching or exceeding the federal estate tax exemption (\$15 million per individual in 2026), charitable donations can serve dual purposes: advancing philanthropic goals during your lifetime while reducing potential estate tax liabilities for heirs.

While the OBBBA permanently increased the federal **estate tax** exemption to \$15 million (up from the previous \$13.61 million in 2024), families with substantial wealth still benefit from charitable strategies that accomplish multiple objectives:

- **Current income tax deductions:** Reduce **tax liabilities** immediately through itemized charitable deductions
- **Estate value reduction:** Remove appreciated assets from the taxable estate, potentially avoiding 40% federal **estate tax** on amounts exceeding the exemption
- **Capital gains elimination:** Bypass capital gains taxes on highly appreciated assets that would otherwise trigger significant tax events
- **State tax considerations:** Many states impose **estate taxes** at lower exemption thresholds, and charitable giving can provide relief at both federal and state levels

For families developing comprehensive **estate planning** strategies, **charitable donations** should be evaluated alongside other wealth transfer techniques including trusts, gifting strategies, and family limited partnerships.

WHAT IS A QUALIFIED CHARITABLE DISTRIBUTION (QCD) AND WHO SHOULD USE IT?

A **qualified charitable distribution (QCD)** allows IRA owners aged 70½ or older to transfer funds directly from their IRA to a qualified 501(c)(3) public charity, excluding that amount from taxable income entirely. QCDs can satisfy required minimum distributions (RMDs) while providing tax benefits unavailable through standard charitable deductions.

The annual QCD limit is \$115,000 per individual in 2026.⁷ Married couples filing jointly can each make QCDs up to the individual limit from their respective IRAs, potentially excluding up to \$230,000 from taxable income while advancing their **philanthropic goals**.

WHY ARE QCDS ESPECIALLY VALUABLE FOR REDUCING TAX LIABILITIES UNDER OBBBA?

QCDs provide unique advantages that bypass the OBBBA's limitations entirely:

- **No AGI floor:** QCDs are excluded from income rather than claimed as deductions, so the 0.5% floor does not apply
- **No bracket limitation:** The 35% cap on deduction value for top bracket taxpayers is irrelevant since QCDs reduce gross income directly
- **Works for non-itemizers:** Approximately 90% of taxpayers take the standard deduction, and QCDs provide tax benefits regardless of itemization status
- **Reduces AGI comprehensively:** Lower AGI can reduce Medicare Part B and D premiums (IRMAA), taxation of Social Security benefits, and other AGI-dependent **tax liabilities**

- **Satisfies RMDs:** QCDs count toward required minimum distributions for the year, reducing taxable income while fulfilling IRS requirements

Critical Limitation: QCDs cannot be directed to donor-advised funds, private foundations, or supporting organizations. The distribution must go directly to an operating public charity.

For families navigating the intersection of retirement income planning and **philanthropic goals**, QCDs can complement strategies we explore in our approach to [comprehensive financial planning](#).

SHOULD I USE A DONOR-ADVISED FUND OR PRIVATE FOUNDATION?

For families with significant **philanthropic goals**, the choice between a DAF and private foundation involves trade-offs across control, cost, and tax efficiency. Both vehicles can support comprehensive **estate planning** objectives, but their characteristics differ substantially:

Factor	Donor-Advised Fund	Private Foundation
Minimum to establish	Often \$0 to \$5,000	\$250,000+ recommended
Cash deduction limit	60% of AGI	30% of AGI
Securities deduction	30% AGI, FMV basis	20% AGI, cost basis
Annual distribution	No requirement	5% minimum

For most families with \$5 to \$30 million in assets, DAFs offer superior tax efficiency and dramatically lower administrative complexity. Private foundations become more compelling when families seek direct employment of family members, want to make grants to individuals, or desire maximum public visibility for their **philanthropic goals**.

2026 PLANNING CHECKLIST: ACTION STEPS FOR THE NEW TAX ENVIRONMENT

Given the 2026 tax law changes affecting **charitable donations**, high net worth families should evaluate these strategies throughout the year:

1. **Plan for bunching years:** If you anticipate supporting charitable causes over the next three to five years, model the **tax liability** impact of consolidating those contributions into a single DAF contribution year to exceed the 0.5% AGI floor meaningfully.
2. **Identify appreciated assets:** Review your portfolio for securities with substantial unrealized gains. Prioritize positions with the lowest cost basis and longest holding periods for **charitable donations**.
3. **Coordinate with estate planning objectives:** Consider how charitable giving strategies integrate with your broader **estate planning** goals, including **estate tax** mitigation and wealth transfer to heirs.
4. **Maximize QCDs if eligible:** If you are 70½ or older, assess whether directing some or all of your RMD to charity via QCD provides superior **tax liability** reduction—QCDs bypass the OBBBA limitations entirely.
5. **Time DAF contributions strategically:** Most DAF sponsors require contributions to be received by mid-December for year-end processing. For securities transfers, allow 7 to 10 business days.
6. **Document charitable intent:** Ensure you receive and retain proper acknowledgment letters from all charitable recipients for contributions exceeding \$250.

BEYOND TAX BENEFITS: BUILDING A MULTI-GENERATIONAL PHILANTHROPIC LEGACY

While reducing **tax liabilities** represents a legitimate planning consideration, the most meaningful philanthropy extends beyond financial efficiency. Our research with high-net-worth families reveals that strategic giving programs accomplish multiple objectives simultaneously, integrating **philanthropic goals** with comprehensive **estate planning** and family governance:

- **Values alignment:** Support causes that reflect your family's priorities and create tangible community impact through meaningful **charitable donations**
- **Family engagement:** Involve children and grandchildren in grant recommendations to develop responsible stewardship and shared **philanthropic goals**
- **Tax and estate optimization:** Coordinate charitable giving with your broader tax, **estate tax**, and investment strategies to minimize lifetime **tax liabilities**
- **Legacy continuity:** Establish frameworks for intergenerational philanthropic engagement that outlast any individual, representing a cornerstone of sophisticated **estate planning**

These considerations align with the comprehensive approach to multigenerational wealth management we provide through our [Virtual Family Office services](#), where charitable planning integrates with investment, tax, and **estate planning** strategies.

KEY TAKEAWAYS: CHARITABLE GIVING TAX OPTIMIZATION FOR 2026

- **Navigate the new 2026 rules strategically:** The OBBBA's 0.5% AGI floor and 35% deduction cap are now in effect, requiring more intentional planning to maximize **charitable deductions** for high net worth families.
- **Implement DAF bunching:** Consolidating three to five years of charitable giving into a single DAF contribution can generate significantly greater **tax liability** reductions than annual giving under the 2026 rules.
- **Prioritize appreciated securities:** Donating stocks or other assets held for more than one year can eliminate up to 23.8% of capital gains taxes while providing a full fair-market-value deduction.
- **Leverage QCDs if eligible:** For IRA owners 70½ and older, qualified charitable distributions bypass the OBBBA limitations entirely while reducing AGI and satisfying RMD requirements. The 2026 limit is \$115,000 per individual.
- **Integrate with estate planning:** Strategic **charitable donations** can reduce **estate tax** exposure while advancing your **philanthropic goals** during your lifetime.
- **Coordinate holistically:** Effective philanthropy coordinates with tax, **estate planning**, and investment strategies as a core component of comprehensive wealth management rather than a standalone activity.

FREQUENTLY ASKED QUESTIONS ABOUT CHARITABLE GIVING AND ESTATE PLANNING

How do charitable donations affect my estate tax liability?

Charitable donations remove assets from your taxable estate, potentially reducing federal **estate tax** exposure. With the 2026 federal **estate tax** exemption at \$15 million per individual (\$30 million for married couples), families with estates approaching these thresholds can use charitable giving to transfer wealth to philanthropic causes rather than to the IRS. Additionally, appreciated assets donated to charity avoid both income and estate taxes on the appreciation.

Can I still get a charitable deduction if I do not itemize?

In 2026, non-itemizers can deduct up to \$1,000 (\$2,000 for married couples filing jointly) for cash **charitable donations** made directly to qualified operating charities. However, this deduction does not apply to DAF contributions. For larger charitable gifts, QCDs remain the most effective strategy for non-itemizers to reduce **tax liabilities** while achieving **philanthropic goals**.

What assets can I donate to a donor-advised fund?

DAFs can accept cash, publicly traded securities, mutual funds, ETFs, and many non-publicly traded assets, including private business interests, real estate, cryptocurrency, and restricted stock. In 2024, more than two-thirds of DAF contributions were non-cash assets, with cryptocurrency donations increasing 14-fold from the prior year.⁸

How should charitable giving integrate with my estate planning?

Charitable giving should be evaluated as part of comprehensive **estate planning** that considers lifetime and testamentary transfers. Strategies may include current **charitable donations** for income tax benefits, charitable remainder trusts that provide income during your lifetime, and charitable bequests that reduce the taxable estate. The optimal approach depends on your specific **philanthropic goals**, family situation, and **estate tax** exposure.

Can I make a QCD to my donor-advised fund?

No. QCDs must be made directly to operating public charities. Donor-advised funds, private foundations, and supporting organizations are explicitly excluded from QCD eligibility. However, you can use both strategies in the same year by making QCDs to favorite charities while also contributing to a DAF from other assets to maximize **tax liability** reduction and advance your **philanthropic goals**.

STRATEGIC RECOMMENDATIONS: MOVING FORWARD

The 2026 tax law changes require a new approach to **charitable giving tax optimization**. For families committed to philanthropy, understanding and adapting to the new rules is essential to capture maximum tax benefits while advancing **philanthropic goals** and strengthening their **estate planning** posture.

Our analysis suggests three priority actions for high-net-worth families:

1. Model the **tax liability** impact of bunching multiple years of charitable intent into a single DAF contribution to overcome the 0.5% AGI floor
2. Identify appreciated positions in your portfolio that could fund **charitable donations** while eliminating capital gains exposure
3. Coordinate with your tax advisor and **estate planning** attorney to ensure your charitable giving strategy aligns with your comprehensive wealth transfer goals

At Palmer Wealth Group™, we believe that thoughtful charitable planning should reflect both your financial circumstances and your family's values. Our team works with clients across the country to develop integrated strategies that optimize **tax liabilities** while maximizing philanthropic impact and advancing **estate planning** objectives.

If you are considering how these changes affect your charitable giving strategy, we invite you to schedule a conversation with our advisory team.

Important Disclosures

This article is provided for educational and informational purposes only and does not constitute personalized financial, tax, or legal advice. The information presented reflects general principles and may not apply to your specific situation. Individual circumstances vary significantly, and the strategies discussed may not be suitable for all investors.

Tax laws are complex and subject to change. The discussion of the One Big Beautiful Bill Act (OBBBA) provisions reflects our understanding as of the publication date. You should consult with qualified tax and legal professionals before making any charitable giving or estate planning decisions or implementing the strategies described in this article.

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References

1. *Fidelity Charitable*, 2025 Giving Report, January 2025. Donors recommended grants totaling \$14.9 billion in 2024, a 25% year-over-year increase from \$11.8 billion in 2023. More than 350,000 donors recommended nearly 2.7 million grants.
2. One Big Beautiful Bill Act (H.R. 1), signed into law July 4, 2025. Section 102026 establishes that charitable contribution deductions for itemizing taxpayers are allowed only to the extent aggregate contributions exceed 0.5% of the taxpayer's contribution base (AGI).
3. *Greenberg Traurig LLP*, "New Limitations on Charitable Deductions Take Effect in 2026," October 2025. Under the OBBBA, taxpayers in the top tax bracket have a maximum deduction benefit of 35% per dollar donated.
4. *Fidelity Charitable*, 2025 Giving Report. Analysis reveals that 74% of contributed dollars to Fidelity Charitable donor-advised funds are distributed to charities within five years. After ten years, \$89 of every \$100 contributed has been granted.
5. *Chariot/Give Chariot*, "Top 12 Takeaways from Fidelity Charitable's 2025 Giving Report," January 2025. The median DAF account balance of \$23,534 grew 10% year over year, with 51% of total account balances under \$25,000.
6. *Internal Revenue Service, Publication 526 (2024)*, Charitable Contributions. Deductions for contributions of long-term capital gain property to public charities are limited to 30% of AGI, with five year carryforward provisions.
7. *Charles Schwab*, "Reducing RMDs With QCDs in 2025 and 2026," December 2025. The QCD limit for 2025 is \$108,000, estimated to increase to \$115,000 for 2026. Up to \$54,000 can fund a charitable remainder trust or gift annuity.
8. *Fidelity Institutional*, 2025 Giving Report. In 2024, donors contributed \$786 million in cryptocurrency, a 14-fold increase from 2023. More than two-thirds of all contributions were non-cash assets.

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