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Creating a charitable legacy

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Creating a charitable legacy under OBBBA

Tax planning can be a critical tool in building or preserving wealth and, if it is your intention, creating a charitable legacy either during your life or at death. As your financial picture becomes more complex from various sources of income, investments, or major life transitions, bringing the focus back to established personal goals remains the basis of effective tax planning. By letting your goals serve as guideposts, you can approach financial decisions with greater clarity and confidence, even as tax laws evolve. Your planning should remain purposeful and adaptable, supporting your long-term vision regardless of changes ahead.

On July 4, 2025, the President signed the law commonly referred to as the One Big Beautiful Bill Act (OBBBA, P.L. 119-21). While the new provisions introduced under OBBBA may influence certain elements of individual tax and wealth transfer planning, your established objectives should remain central to conversations with your advisers. When analyzing specific measures that could affect your charitable legacy planning, consider that multi-year financial modeling is essential for understanding the potential implications on your individual circumstances. It's also important to recognize that non-tax factors—including impacts on cash flow, asset composition, business interests, and family dynamics—can be just as significant, if not more so, than tax-related concerns. Ongoing collaboration with a knowledgeable tax adviser can help you to navigate these complex decisions confidently.

For a discussion of OBBBA, please read ***A closer look: Inside the new tax law*** and for a discussion of the provisions specific to Private Wealth, please read ***GOP's 'One Big Beautiful Bill Act' brings permanence to many tax provisions affecting private wealth taxpayers***.

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Income tax considerations for lifetime charitable donations under OBBBA

Individual income tax planning, especially in light of the new OBBBA provisions, is multifaceted. Charitable contributions stand out as one of the more flexible itemized deductions, given your control on timing. While there are several provisions of OBBBA that may affect the tax efficiency of charitable donations made after December 31, 2025, we are going to concentrate on two in particular that may affect those who itemize their deductions:

1. *Charitable "floor":* For tax years beginning after December 31, 2025, individuals can only deduct charitable donations that exceed 0.5% of the taxpayer's "contribution base" before they can be claimed.
2. *Overall itemized deduction limitation:* Similarly, for tax years beginning after December 31, 2025, there are new rules that will cap the total amount of itemized deductions, reducing the tax benefit for larger donations made by individuals who itemize those deductions.

If you expect to be affected by either of these provisions, then you may wish to consult your tax adviser and consider whether it is beneficial to accelerate planned charitable giving and complete donations before these new rules become effective.

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Charitable floor

To illustrate the impact of the charitable deduction floor, it's useful to compare the tax effect of spreading a charitable donation over several years versus making the entire donation in a single year.

Assumptions:

- The taxpayer is single and, for tax year 2026, has an annual contribution base of $5 million—which means that the charitable deduction floor is $25,000 per year.
- The individual is considering donating a total of $1 million, either as $100,000 each year over 10 years, or as a lump sum in a single year.

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Scenario 1: Donating over 10 years

If the taxpayer donates $100,000 annually, the $25,000 floor will apply in each of the 10 years. This results in only $75,000 of each annual gift being deductible, resulting in a cumulative reduction of $250,000 over the decade. The total allowable deduction over the 10 years would be $750,000.

Scenario 2: Donating in a single year (“bunching”)

If the entire $1 million is donated in one year, the $25,000 floor applies just once. In this case, the allowable deduction is $975,000, which is $225,000 more than spreading the deduction over 10 years.

	Scenario 1: Annual $100,000 donation for 10 years	Scenario 2: $1,000,000 donation in one year
Cumulative amount paid to charity	$1,000,000	$1,000,000
Cumulative reduction for charitable floor (0.5% annually)	<$250,000>	<$25,000>
Cumulative amount allowed as a charitable deduction on Sch. A	$750,000	$975,000
Additional allowable charitable contributions because of “bunching”		**$225,000***

*Ignore the time value of money

This example demonstrates that bunching charitable contributions into a single tax year may significantly reduce the impact of the deduction floor, thereby increasing the net deduction. Additionally, by timing the bunched contribution in a year with income taxed at a higher rate, you may further enhance the tax efficiency of the deduction. Note that these calculations are not meant to demonstrate actual deductibility, but simply to illustrate the effect of the charitable floor.

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Overall itemized deduction limitation

Next, you may need to consider the overall itemized deduction limitation. For affected taxpayers, otherwise allowable itemized deductions will be reduced by an amount equal to 2/37ths of the lesser of: (1) the taxpayer's total itemized deductions or (2) the amount by which the taxpayer's taxable income (increased by the amount of itemized deductions) exceeds where the 37% income tax bracket begins. You potentially can reduce the impact of this provision over multiple years as strategic timing of deductions generally may increase the tax efficiency of the payment more effectively than simply spreading payments out evenly. Therefore, running a multi-year projection may help individuals considering a substantial charitable contribution—or other deductions—to evaluate the impact of timing their payments.

Putting it all together

Tax modeling is a valuable tool for illustrating how various tax provisions come together and apply to an individual's financial situation. These two provisions introduced by OBBBA may affect the amount of a potential deduction, but tax modeling may still be necessary to demonstrate the overall tax efficiency. While a larger potential deduction may seem beneficial, tax efficiency also depends on the character of the income being offset. For example, a deduction in 2025 that is not subject to the charitable floor or the

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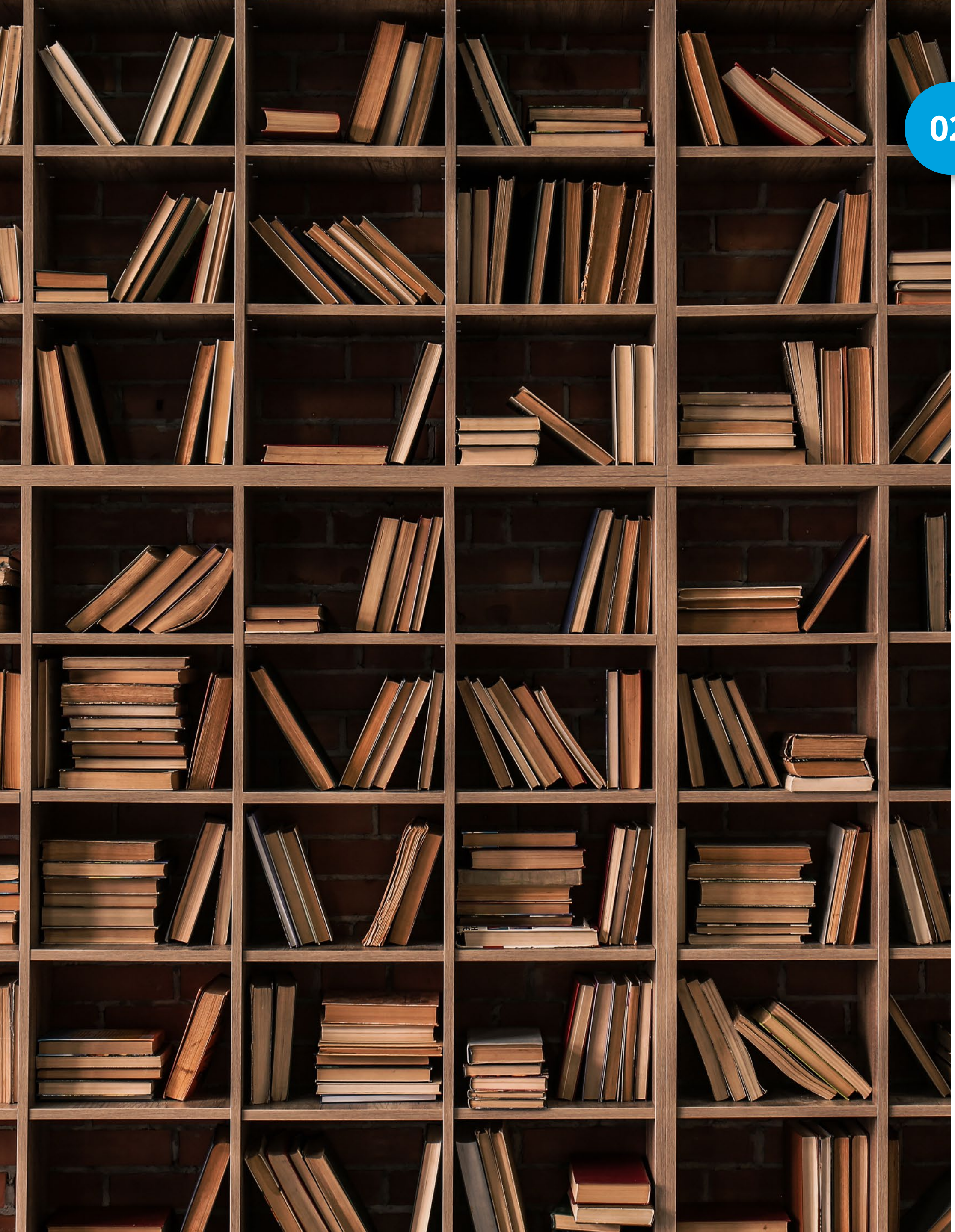
overall itemized deduction limitation may deliver less benefit if it offsets income taxed at the favorable long-term capital gains rate compared to a deduction that is subject to those limitations in 2026 but which offsets income tax at the higher ordinary income tax rate. Sources of income and the rate at which they are taxed may vary from year to year, particularly as investments or business holdings change. Systematically modeling these factors can help to support more informed decision-making over time. Additionally, it can help you to plan for cash flow needs in order to fund potential bunching of charitable contributions or other deductible payments.

For individuals considering leaving a significant charitable bequest at their death, it may be worth evaluating the benefits of fulfilling that gift during lifetime rather than at death. While a charitable estate tax deduction is available for bequests made at death, these bequests in many instances do not qualify for an income tax deduction against the income generated by the estate. In contrast, completing charitable gifts during one's lifetime can offer several advantages: the donor's overall estate—subject to future estate tax—is reduced, and an immediate income tax deduction may be available to offset current taxes, and giving during life may allow the donor to witness the charity's use of their gift, creating the opportunity for direct engagement and the personal satisfaction of seeing their generosity make an impact.

Selected observations for deduction planning

- Given the January 1, 2026, effective date, consider accelerating deductions into 2025
- Consider ways to reduce itemized deductions post-2025
- The 2/37th phase-out will apply each year a taxpayer itemizes, unless taxable income is less than where the 37% bracket begins
- A deduction in 2025 that isn't subject to the 2/37th phase-out may still be less valuable than a deduction in 2026 that is subject to the phase-out



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Conclusion

Tax planning for a charitable legacy—whether during your lifetime or as part of your estate planning—is often much more than a financial exercise. It can be an opportunity to create a lasting impact that reflects your personal values and family aspirations. Effective planning for your charitable legacy typically involves more than simply evaluating the tax efficiency of your contributions. With both personal and business assets, changing tax laws, and shifting priorities, it's important to consider multi-year tax planning and have ongoing conversations with your tax adviser. While staying current with legislation is vital, tax considerations are just one part of building a meaningful legacy. Equally important is reflecting on the enduring difference your decisions may have—on your family's future and, if you choose, on your community as well. Whether you're just beginning or revisiting your strategy, aligning your philanthropic plans with your personal goals can help you to move forward with confidence. By intentionally shaping your charitable legacy, it can resonate with generations to come.