



Giving to Charity is Good for You but New Tax Laws Require More Planning

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Giving Can Help in Many Ways

Mahatma Gandhi said, “The best way to find yourself is to lose yourself in the service of others.” A 2008 Harvard Business School study found that giving money to someone else lifted participants’ happiness more than spending it on themselves. These good feelings show up in our biology. A 2006 National Institutes of Health study found that giving to charity activates brain regions tied to pleasure, social connection, and trust, producing a “warm glow” effect. Scientists believe altruistic behavior also releases endorphins, creating what is known as the “helper’s high.” A 2014 study in the Journal of Economic Psychology found that giving to others reduces stress, strengthens the immune system, and that tax subsidies for charitable giving may have positive spillover effects on health.

We give because we care about the world around us. The tax code offers a way to support that giving efficiently, through a deduction for money given to charities you support. That code has grown more complex, so it makes sense to plan your giving carefully. All charitable gifts must be completed before year end, making autumn a good time to review your philanthropic goals.

Shifting Federal Income Tax Landscape

The Tax Cuts and Jobs Act (TCJA), passed in late 2017, limited many filers' ability to itemize charitable deductions. It capped the deduction for state and local taxes (SALT) at \$10,000 and eliminated miscellaneous itemized deductions. The 2026 standard deduction for married couples filing jointly is \$32,200, rising to \$35,500 if both spouses are 65 or older. Because the standard deduction is now so high, many taxpayers "group" several years of giving into a single year so their itemized deductions exceed it.

The "Big Beautiful Bill" (BBB), passed in July of 2025, raises the 2026 SALT cap to as much as \$40,400, but phases it out once Modified Adjusted Gross Income (MAGI) exceeds \$505,000. This higher cap expires at the end of 2029, when the limit reverts to \$10,000. The BBB also adds a Senior Deduction of up to \$12,000 per couple for taxpayers over 65, phased out above \$150,000 of MAGI and set to expire at the end of 2028.

For tax years beginning in 2026, taxpayers with taxable income exceeding the threshold for the 37% federal income tax bracket (approximately \$768,700 for married filing jointly, subject to final IRS inflation adjustments) must reduce their allowable itemized deductions by an amount equal to 2/37 of the lesser of (i) their total itemized deductions or (ii) the amount by which their taxable income exceeds the 37% bracket threshold.

Starting in 2026, the BBB also limits the charitable deduction itself: you can only deduct giving above the first one half of one percent of your AGI.

Giving Cash

The simplest way to give is to write a check. Even if you do not itemize, you can deduct up to \$2,000 per couple of cash-only gifts as a below-the-line deduction, which does not reduce AGI. For itemized cash gifts above \$2,000, the new one half of one percent AGI threshold means you lose the value of the first one half of one percent of your AGI. For example, if your AGI is \$500,000 and you write a \$10,000 check to a charity, you can deduct only \$7,500. If you itemize, the deduction reduces taxable income up to 60% of your AGI. Aside from the new \$2,000 non-itemized cash deduction, writing a check is generally the least tax-efficient way to give.

Qualified Charitable Distributions (QCD)

You can also give directly from your IRA's required distribution through a Qualified Charitable Distribution (QCD). You get no deduction, but the distributed income is never recognized. You must be at least 70½ when the distribution is made, it must go directly to a qualified charity from the taxable portion of your IRA, and it is capped at \$111,000 per person in 2026.

Tax Limitations and Caveats of QCDs

You can make a QCD larger than your required minimum distribution for the year, but the excess cannot carry over to future years. A QCD cannot go to a Donor-Advised Fund. It can come from an inherited IRA, but the beneficiary must be at least 70½ when the gift is made.

One overlooked detail: deductible IRA contributions made after age 70½ reduce the amount you can later exclude as a QCD. The IRS requires your QCD to be reduced, dollar for dollar, by the cumulative deductible IRA contributions made since the year you turned 70½, to the extent those contributions have not already reduced a prior QCD. Any excess is included in income but is then available as an itemized deduction.

State tax rules on QCDs vary, so donors using charitable distributions should consult a tax advisor to understand the impact on state tax liabilities, particularly in New Jersey and Pennsylvania.

New IRS guidance adds Code Y to 1099-R forms to flag QCDs, but the IRS has said Code Y will remain optional for 2026 distributions reported in 2027. Until it becomes mandatory, you must tell your tax preparer about any QCD so they can note it on the write-in line where your IRA distributions appear.

Giving Shares of Stock, Mutual Funds, or ETFs

If you itemize, gifting appreciated securities is more tax-efficient than giving cash, though the deduction is capped at a lower 30% of AGI rather than 60%. Giving shares directly also avoids the 3.8% Net Investment Income Tax (NIIT) that a sale would trigger, so you support the charity and avoid tax on the capital gain.

Any deduction above the 30% AGI limit can be carried forward for up to five years. If you still want exposure to a stock you plan to donate, you can buy more shares, wait 31 days, and gift the older, appreciated shares instead, avoiding the wash sale rule that would disallow the current deduction. Consult a professional before doing this.

When donating securities, identify which specific shares you are giving. Choose the shares with the lowest cost basis to remove the most capital gain from your portfolio. You must hold donated shares for more than one year, or your deduction is limited to your cost basis rather than the appreciated value.

Basic Split Gifting for Smaller Amounts

If you want to give but need to keep receiving income from the assets, several structures let a charity provide you with lifetime income in exchange for your gift: a pooled income fund or a charitable gift annuity.

Pooled income funds typically start at \$20,000 and charitable gift annuities above \$10,000, and charitable remainder trusts at \$500,000 or more.

In each structure, you give money or shares to a recognized charity and receive at least 5% of the trust's value each year for life, potentially extending to your spouse or another beneficiary.

You receive an income tax deduction in the year you make the gift. The deduction depends on your age, whether the income covers one life or two, and the projected income you will receive. When you, and any designated beneficiary, die, the remaining principal passes on to the charity. That remainder is what the deduction is based on.

With a pooled income fund or charitable gift annuity, you give money or shares to a specific charity, and the gift

irrevocable: you cannot change your mind about the gift or the recipient. A charitable remainder trust offers more flexibility. You can designate multiple charities and reserve the right to change beneficiaries later.

Donor-Advised Funds

If you want to give appreciated stock now but are not ready to choose which charities receive it, a Donor-Advised Fund (DAF) is an option. A DAF is an intermediary charity: you give it stock, deduct the full market value in that year, up to the 30% AGI limit, and it establishes a fund in your name. The DAF then makes gifts to charities from that fund. Because your gift to the DAF is permanent and irrevocable, you cannot legally control these distributions, but you can suggest recipients, and DAFs rarely reject reasonable suggestions. Compare providers before choosing one. DAFs are typically established with gifts of \$5,000 or more and let you take the deduction now while charities receive the money over time.

More Advanced Solutions

These techniques are available for larger contribution amounts. For more detailed information see the article [*Charitable Remainder Trust vs DAF and Foundations*](#) written by **Carol Hopkins** on these more advanced techniques.

More Advanced Split Gift Trusts

Charitable Lead Trust (CLT) and Charitable Remainder Trust (CRT) vehicles separate a stream of payments and a lump sum. These more complex are appropriate for larger gifts of \$500,000 or more. With the correct legal documents, you can elect single or multiple charities to benefit and can change them later. Consult a lawyer experienced in charitable tax planning, as this is a complex area.

The CRT pays you income for life, and, if you choose, the life of another beneficiary, or for up to 20 years. At the end of that period, the CRT terminates and its assets go to the named charities. Once established, you can fund a CRT with cash or appreciated property. A Charitable Lead Trust (CLT) switches the order and pays a stream of income to a charity, and the remaining sum goes to a non-charitable beneficiary such as the benefactor's children.

Private Foundations

A private foundation is an organization, usually funded and controlled by one family, created to manage a large sum of money and distribute it to charities indefinitely. It can be structured as a trust or a nonprofit corporation. This structure offers the most long-term flexibility and control and can pass charitable values to a donor's descendants.

It is also the most complex charitable structure, with many rules to follow, some of which are noted here. A private foundation must distribute at least 5% of net investment assets each year and file a 990-PF tax return annually. Cash gifts to the foundation are deductible up to 30% of AGI, and appreciated assets up to 20% of AGI, with a five-year carryover for any excess. A private foundation typically needs at least \$5 million in funding to operate efficiently.

Conclusion

Charitable giving is not simple, and once you give the money away you cannot take it back. Seek independent professional advice before making a significant gift. Always identify which shares you are gifting and confirm you have held any gifted security for more than a year. Your financial planner, working with your estate planning attorney, tax counsel, and your charity, can help you determine the approach that fits your situation.

Sources

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FAQs

Why should I plan my charitable giving this year instead of just writing a check?

The standard deduction for married couples filing jointly is \$32,200 in 2026, so a check alone often won't clear that bar. Many donors group several years of giving into one year to exceed the standard deduction and capture the tax benefit. New rules add pressure to plan ahead. Starting in 2026, you can only deduct itemized cash gifts above the first half of one percent of your adjusted gross income, and high earners in the top tax bracket must reduce their itemized deductions further. Cash is still the simplest way to give, but it's now the least tax-efficient for most donors who itemize.

What is a Qualified Charitable Distribution, and who can use one?

A Qualified Charitable Distribution, or QCD, lets you send money directly from your IRA's required distribution to a qualified charity. You get no deduction, but the amount is never counted as income, which can matter more than a deduction depending on your situation. You must be at least 70½ when the gift is made, and the 2026 cap is \$111,000 per person. A QCD can't go to a donor-advised fund, and if you made deductible IRA contributions after age 70½, those reduce the amount you can later exclude. Tell your tax preparer about any QCD, since a new reporting code won't be mandatory until distributions made in 2027.

Is it better to donate stock or cash?

If you itemize, donating appreciated stock, mutual funds, or ETFs is generally more efficient than giving cash. You avoid the 3.8% Net Investment Income Tax that a sale would trigger, and the charity receives the full value. The tradeoff is a lower deduction limit, 30% of your adjusted gross income for securities versus 60% for cash, though any amount above that limit carries forward for up to five years. You must hold the shares more than a year, and you should give the shares with the lowest cost basis, since those remove the most gain from your portfolio.

What is a Donor-Advised Fund, and how does it work?

A Donor-Advised Fund, or DAF, is an account you open through a sponsoring charity. You contribute cash or stock, take the deduction that year, and the DAF holds the money until you decide which charities receive it. This lets you separate the tax event from the giving decision, useful if you want the deduction now but haven't chosen recipients yet. The gift is irrevocable, so you can't legally control future distributions, but you can suggest recipients and DAFs rarely turn down reasonable requests. Most DAFs require a minimum contribution of \$5,000 or more to open.

When does it make sense to consider a charitable trust or private foundation?

These structures fit larger gifts and longer time horizons. A charitable remainder trust pays you income for life or a set term, then passes the remainder to charity, and typically starts around \$500,000. A charitable lead trust reverses that order, paying income to charity first with the remainder going to your heirs. A private foundation offers the most control and can carry your family's giving across generations, but it comes with the most rules: a 5% annual distribution requirement, an annual tax filing, and enough funding, usually at least \$5 million, to operate efficiently. Anyone considering these should work with a lawyer experienced in charitable tax planning.



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