

2025 Tax Law Changes How Charitable Contributions Are Deducted

The 2025 update to the **Tax Cuts and Jobs Act (TCJA)**—part of the *One Big Beautiful Act*—introduces two major changes to how charitable contributions are deducted:

1. **A new above-the-line deduction for nonitemizers** — so even taxpayers who take the standard deduction can get a tax break for donating cash to qualifying charities.
2. **A reduction in charitable deductions for itemizers** — limiting the benefit for higher-income taxpayers by tying it to a percentage of adjusted gross income (AGI).

Whether you itemize or not, these changes will likely affect how you approach charitable giving starting in 2025.

1. New Above-the-Line Deduction for Nonitemizers

Under previous law, only taxpayers who itemized their deductions could claim a deduction for charitable contributions. That meant millions of taxpayers who took the standard deduction received **no direct tax benefit** for their generosity.

What's New

Beginning in **tax year 2025**, taxpayers who do **not** itemize can still deduct charitable contributions, within certain limits:

- **Single filers:** Up to **\$1,000**
- **Married filing jointly:** Up to **\$2,000**
- **Eligible contributions:** Cash donations made to qualified charitable organizations during the tax year

This is an **above-the-line deduction**, meaning it reduces your AGI before other deductions and credits are applied—potentially increasing eligibility for other tax benefits.

Example – Non-itemizing Donor

- Sarah, a single taxpayer, takes the standard deduction and donates \$900 in cash to her local food bank in 2025.
- She can now deduct the full \$900 from her AGI, even without itemizing.
- If she had donated \$1,500, her deduction would be capped at \$1,000 under the new rule.

2. New Limitation for Itemizers

While the new law benefits nonitemizers, it also **reduces** the charitable deduction for those who do itemize.

What's New

For tax years starting in 2025, charitable contributions for itemizing taxpayers will be **reduced by 0.5% of AGI**.

- This applies to both cash and noncash contributions.
- It's calculated after applying existing percentage-of-AGI limits for charitable deductions (currently 60% for cash contributions to public charities).

Example – Itemizing Donor

- Michael has an AGI of \$500,000 and donates \$100,000 in cash to a qualified charity in 2025.
- Under the old rules, his full \$100,000 would be deductible (subject to AGI limits).
- Under the new rule, his deduction is reduced by **0.5% of AGI**:
 - $0.5\% \times \$500,000 = \$2,500$ reduction
 - Allowed deduction = $\$100,000 - \$2,500 = \mathbf{\$97,500}$

Side-by-Side Summary

Taxpayer Type	Old Law	New Law (2025–)
Nonitemizer	No deduction for charitable contributions	Above-the-line deduction: \$1,000 (single) / \$2,000 (joint)
Itemizer	Full deduction (subject to % of AGI limits)	Deduction reduced by 0.5% of AGI

Why This Matters

- **For Nonitemizers:** You now have a direct tax incentive to donate, even if you don't have enough deductions to itemize.
- **For Itemizers:** Large charitable gifts will still be deductible but slightly reduced based on your AGI.

These changes may affect **when and how much** you choose to give.

Planning Strategies

1. For Nonitemizers

- **Max Out the Benefit** – If you already give to charity, consider adjusting your donations to meet or slightly exceed the \$1,000/\$2,000 caps to take full advantage of the deduction.
 - **Give Cash** – The above-the-line deduction only applies to cash contributions, not donated goods.
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2. For Itemizers

- **Be Aware of the Reduction** – If you're making very large contributions, understand that 0.5% of your AGI will be subtracted from the deductible amount.
 - **Consider Timing Donations** – If you expect lower AGI in a future year, making large contributions then could reduce the impact of the 0.5% AGI reduction.
 - **Bunch Contributions** – Grouping multiple years' worth of charitable donations into one year might still help if paired with other itemized deductions.
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Examples in Action

Example 1 – Nonitemizing Married Couple

- AGI: \$85,000
- Standard deduction: \$31,800
- Cash donations: \$2,500
- New law: Deduction capped at \$2,000 above the line, reducing AGI to \$83,000 before applying the standard deduction.

Example 2 – High-Income Itemizer

- AGI: \$1,200,000
 - Charitable contributions: \$200,000
 - Reduction: $0.5\% \times \$1,200,000 = \$6,000$
 - Allowed deduction: \$194,000
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Qualified Charities

To claim either deduction:

- Donations must be made to an **IRS-qualified charitable organization** (churches, schools, nonprofit organizations, etc.).
 - You must keep proper documentation (receipts, bank records).
 - Contributions to individuals, political organizations, or foreign charities generally do not qualify.
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Potential Pitfalls

- **Noncash Donations Don't Count for Nonitemizer Deduction** – Clothes, household items, or volunteer time won't qualify for the above-the-line deduction.
 - **AGI Impact on Other Benefits** – The above-the-line deduction for nonitemizers could help reduce AGI enough to qualify for credits like the Child Tax Credit or avoid Medicare premium surcharges.
 - **Double Counting Not Allowed** – If you use a donor-advised fund or other giving vehicle, be careful not to claim the same contribution in multiple ways.
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