RubinBrown Advisors

Charitable Giving for the High-Net-Worth Individual

Charitable giving is an important way for many to express their values and leave a lasting legacy. Whether through cash, property, time, or a combination of approaches, thoughtful giving can also strengthen an overall financial plan by improving tax efficiency and extending the impact for both the donor and their family.

Tax Law Changes Impacting Charitable Giving

Both the 2017 Tax Cuts and Jobs Act ("TCJA") and the 2025 One Big Beautiful Bill Act ("OBBBA") heavily changed deduction rules. The TCJA increased the standard deduction and reduced permissible itemized deductions, resulting in fewer taxpayers itemizing. The OBBBA then made further refinements to itemized deduction limitations. Below is a summary of pertinent changes.

2017 TCJA – The TCJA eliminated or limited many itemized deductions. Itemized deductions that remain include medical and dental expenses that exceed 7.5% of AGI (adjusted gross income), mortgage interest (subject to a principal limitation of $750,000 for acquisition debt incurred after December 15, 2017; $375,000 if married filing separately), state and local taxes (SALT) paid (capped at $10,000; $5,000 if married filing separately), and charitable gifts. The OBBBA made the TCJA's mortgage interest limitation permanent and replaced the SALT cap as described below.

2025 OBBBA – Among other changes, the OBBBA modified the SALT and charitable deduction rules as follows:

The SALT deduction cap rises from $10,000 to $40,000 for 2025 and $40,400 for 2026, then increases 1% each year through 2029 before reverting to $10,000 in 2030. The same cap applies to both single and joint filers; married individuals filing separately receive half the cap and half the MAGI threshold. For taxpayers with modified adjusted gross income (MAGI) above $500,000 in 2025, the higher cap is reduced by 30 cents for every dollar of MAGI over that threshold. The threshold itself rises 1% a year, to $505,000 for 2026. The cap never falls below $10,000, so the increase is fully phased out at roughly $606,000 of MAGI in 2026.

Charitable deductions:

Two important limitations to charitable deductions start in 2026:

- For those who itemize deductions, there is a 0.5% of AGI "floor," meaning only donations above the floor are deductible.
- For taxpayers whose taxable income plus itemized deductions exceeds the start of the 37% top federal income tax bracket (2026 taxable income over $640,600 for single filers and $768,700 for joint filers), all itemized deductions (not only charitable gifts) are reduced by 2/37 of the lesser of total itemized deductions or the amount by which taxable income plus itemized deductions exceeds that threshold, effectively limiting the benefit to 35 cents per dollar rather than 37 cents.

The new OBBBA limitations can have a meaningful impact on tax savings for charitable deductions for those with high AGIs beginning in 2026. As an example, assume a person who itemizes deductions has $2,000,000 of AGI and typically gives $20,000 per year to charity.

Under the former rules, the donor would receive a full $20,000 deduction at the 37% federal tax bracket which results in tax savings of $7,400 ($20,000 x 37%).

Under the new OBBBA rules, the first $10,000, or 0.5% of AGI, is the deduction floor, making only $10,000 of the $20,000 contribution deductible. If the donor is in the top federal income tax bracket, the benefit of that deduction is capped at 35%, resulting in tax savings of $3,500. That is approximately 53% less in federal tax savings for making the same contribution amount as in the prior year.

On the plus side, beginning with the 2026 tax year there is a deduction for non-itemizers for cash gifts to public charities of up to $1,000 for single filers and $2,000 for joint filers. This deduction is available only to taxpayers who claim the standard deduction; those who itemize cannot claim it. To be deductible under this rule, donations cannot go to a donor advised fund or supporting organization (and most private foundations do not qualify); they must go directly to a public charity. The 0.5% floor does not apply to this deduction.

Common Charitable Gifting Strategies

Most clients new to RubinBrown Advisors have traditionally made charitable gifts by simply writing a check or donating cash. Cash donations to public section 501(c)(3) charities still may provide a current year income tax deduction up to 60% of adjusted gross income, subject to applicable limitations, with a five-year carryforward for excess contributions above the AGI limits. However, using cash is seldom the most efficient way to give. Below we will explore some of the more common and efficient ways to make charitable gifts and how to integrate these strategies into a long-term financial plan, especially given OBBBA changes.

DONATE APPRECIATED ASSETS

For high-net-worth taxpayers, managing capital gains adds significant tax-efficiency to the portfolio. We often utilize tax-loss harvesting when markets are volatile and strategic gain harvesting in low-income years. Stock markets have also performed very well in the last 10–15-year period, leaving many with large, unrealized capital gains in their portfolio. For the charitably inclined, using low-basis, long-term capital gain positions to donate also adds tax-efficiency. Appreciated assets can be viewed as charitable currency because asset donations may allow for both a current year income tax deduction at fair market value and avoidance of capital gain on the disposition of the asset, subject to the charitable contribution rules and limitations that apply to the donor, asset, and recipient charity. So, the stock that you bought for $10,000 and is now worth $100,000? It can be donated to charity, you may receive a charitable income tax deduction subject to applicable limitations, and you may avoid paying capital gains tax on the $90,000 of gain if the tax-exempt charity sells the position.

Most charities can receive direct donations of securities or other appreciated assets. Donations of long-term capital gain property to public charities are generally limited to 30% of AGI, with a five-year carryforward for excess contributions. And, if the asset is one that you would like to continue to own, there is no preclusion from purchasing it back with cash that would otherwise have been used to make the charitable gift, which will reset the cost basis to current market value. When using appreciated securities, it's important to make sure that the asset donated is a long-term capital gain holding, meaning it has been owned for more than one year, because short-term capital gain property generally is deductible only to the extent of the donor's adjusted basis. Gifts of tangible personal property (such as art) that the charity does not use in its exempt purpose are also generally limited to the donor's basis.

USE A DONOR ADVISED FUND

What if you would like a tax deduction this year, but do not want to give all the funds to the charities you plan to support right now? The donor advised fund (DAF) provides a simple solution. A DAF is a charitable giving account maintained by a sponsoring organization that is itself a public section 501(c)(3) charity. DAFs often have modest initial funding requirements and can generally be funded with cash, publicly traded securities, and, depending on the sponsor, certain complex assets such as real estate, closely held business interests, or other illiquid investments. Funds are donated into your own designated account within the DAF that can have your name attached to it or remain anonymous.

The donation is complete and the tax deduction is received once the funds are inside the DAF. As a public charity itself, assets can be sold inside the DAF with no tax consequence. While the donation is irrevocable, the donor will have the ability to 1) recommend investment of the funds, tax-free, inside their DAF account, and 2) recommend grants to other public charities from their DAF account. Grants are then sent from the DAF sponsor to the end charity. There is no

legal deadline to distribute funds from a DAF; however, many DAF sponsors require periodic grant activity, such as at least one grant every three years.

Given the OBBBA's limitation on itemized charitable deductions discussed above, "bunching" gifts often makes sense. This technique involves making multiple years' worth of charitable gifts into the DAF to take a deduction in the current year and then spreading out grants to end-charities over time. Then in the following year(s), the taxpayer takes a standard deduction before again making a larger charitable donation to the DAF and itemizing deductions again in a future year. Bunching also helps with the new 0.5% of AGI floor, which applies each year. Note that amounts disallowed by the floor carry forward only from years in which the donor also exceeds a percentage-of-AGI limit, and the 2/37 reduction for top-bracket taxpayers still applies in the bunching year.

MAKE QUALIFIED CHARITABLE DISTRIBUTIONS FROM TRADITIONAL IRA ACCOUNTS

A qualified charitable distribution (QCD) is a direct distribution from an IRA to an eligible charity. While required minimum distributions (RMDs) of Traditional IRA funds are not mandated until age 73, or age 75 for certain younger taxpayers, IRS rules allow those age 70½ or older to donate up to $111,000 in 2026 from an IRA directly to eligible charities without taking the distribution as taxable income. Itemizing deductions is not necessary to take advantage of a QCD, and one does not have to be past their RMD age; 70½ is the magic age. Unlike itemized charitable contributions, a QCD is excluded from income rather than deducted, so the OBBBA itemized deduction limitations, including the 0.5% of AGI floor, do not apply. Because the QCD keeps the distribution out of AGI, it can also help manage Medicare income-related monthly adjustment amount (IRMAA) surcharges, which are based on modified AGI from two years earlier; an itemized charitable deduction does not reduce AGI and therefore provides no IRMAA benefit. If you must take an RMD, the QCD can reduce the amount that must be taken in as taxable income. For example, if a 2026 RMD is $200,000 and a $111,000 QCD is made, the QCD is excluded from income and only $89,000 remains taxable. The QCD limit is per taxpayer, meaning a married couple where each spouse has an IRA can each make QCDs up to the annual limit, and the limit may be adjusted annually for inflation. One important note is that QCDs must go directly to eligible charities and generally cannot be made to a DAF, private foundation, or supporting organization. QCDs also cannot be made from ongoing SEP or SIMPLE IRAs, the excludable amount is reduced by any deductible IRA contributions made after age 70½, and the donor cannot receive any benefit in return (such as event tickets). Within the annual limit, a donor may also make a one-time QCD election of up to $55,000 in 2026 to fund a charitable gift annuity or charitable remainder trust, subject to special requirements.

Other Charitable Gifting Methods

Charitable giving can also be coupled with the donor's desire to retain an income stream from donated assets while also supporting charity. The techniques below are more complex but can be useful for high-net-worth individuals with both philanthropic and income goals in mind.

CHARITABLE GIFT ANNUITY

Many larger charities offer charitable gift annuities, which allow donors to support the organization, receive a partial charitable income tax deduction up front, and receive a fixed income stream from the charity for a single or joint life, with the remaining value retained by the charity. A gift annuity is a contract between a donor and a single charitable organization. It can be funded with cash, property, or appreciated securities. The terms of the agreement lock in the annuity rate and amount/timing of payments back to the donor. The annuity payment is based on several factors including the donor's age when making the initial gift. The donor receives an income tax deduction at the time of the original gift equal to the amount transferred less the present value of the annuity, calculated using IRS actuarial tables and interest rates. If long-term capital gain assets are gifted, part of each annuity payment may be treated as capital gain over the donor's life expectancy, if the donor is the annuitant (alone or with a survivor annuitant) and the annuity

is nonassignable. If the donor outlives their statistical life expectancy, income payments moving forward are generally fully taxable as ordinary income.

CHARITABLE REMAINDER TRUST

Like the Charitable Gift Annuity, the Charitable Remainder Trust (CRT) also provides an upfront charitable income tax deduction and tax-advantaged income stream for a period of years (up to 20) or life. CRTs can be created during life or as part of the estate plan after death (a CRT created at death generates an estate tax charitable deduction rather than an income tax deduction). They can also be created directly with a charitable organization (mostly larger organizations offer CRTs) or by the donor directly, in which case multiple charities or a DAF can be named as remainder trust beneficiaries.

CRTs are often used as a low-basis stock diversification strategy since, similar to the strategies discussed above, assets contributed to a CRT are valued at current market value, and assets are sold and diversified once inside the CRT with no current capital gain consequence. The funds are then invested in a diversified manner inside the CRT, and an annual/quarterly income stream is paid to the donor or another named beneficiary. CRTs can have fixed payments (known as a Charitable Remainder Annuity Trust (CRAT)) or varying payments that are a fixed percentage rate of the CRT value each year (known as a Charitable Remainder Unitrust (CRUT)). There is also a CRT variation typically used when immediate income is not the goal or when illiquid assets that do not generate an income stream are used for the initial funding. This is called a Net-Income Make-Up Charitable Remainder Unitrust (NIM-CRUT). Donations to a CRT provide a charitable income tax deduction for the current year equal to the present value of the charity's remainder interest, which must be at least 10% of the amount contributed. Payments made to an income beneficiary are taxed in a tiered system which typically allows for deferral of the long-term capital gains tax that would have been due upon the sale of the asset(s) used to fund the CRT.

After the end of the CRT term or death of the last income beneficiary, the remaining CRT assets are distributed to designated charitable beneficiaries. Depending on how the CRT is drafted, the donor (or trustee) may retain the power to change the charitable remainder beneficiaries during the term of the trust.

There are more complexities and costs with CRTs. If you create a CRT on your own, the trust must be drafted by legal counsel. A CRT will also generate a Schedule K-1 for the income beneficiary's tax reporting.

CHARITABLE LEAD TRUST

The inverse of the CRT is the Charitable Lead Trust (CLT). CLTs can have a fixed (known as a CLAT) or varying payment (known as a CLUT) and a term of years or lifetime term. They can be created during life or as part of the estate plan at death (a CLT created at death generates an estate tax charitable deduction rather than an income tax deduction). Unlike the CRT, the CLT makes its annual payment to one or more charities and has its remainder interest either revert to the grantor, or more commonly, pass to designated beneficiaries as a longer-term discounted gift. The CLT is also a more complex strategy that requires both legal and accounting considerations. If structured as a grantor CLT, it can also provide a large upfront income tax deduction; however, the donor is then taxed on the trust's income each year and may have to recapture part of the deduction if grantor-trust status ends before the term is over. A non-grantor CLT provides no upfront income tax deduction to the donor.

BENEFICIARY DESIGNATIONS / NAMING CHARITIES IN YOUR ESTATE PLAN

Leaving assets to charity through an estate plan should also be considered. An estate plan often lists specific charitable bequests and may designate one or more charitable organizations as the taker-in-default, meaning who receives the estate if all other beneficiaries are deceased. While such provisions are common, naming a charity, which can also be a DAF, as a primary or contingent beneficiary for a Traditional IRA or other retirement plan may make sense for some. Under the SECURE Act and SECURE 2.0 rules, Traditional IRA funds passing to many non-spousal beneficiaries are subject to a 10-year distribution period, and the inherited IRA may have annual distribution requirements during that 10-year

period depending on whether the original IRA owner was past their RMD age. Distributions are generally taxable as ordinary income to the beneficiary. For those with a potentially taxable estate, for 2026, greater than $15,000,000 for an individual or $30,000,000 for a married couple (assuming the portability election is made at the first spouse's death or equivalent planning is in place), leaving Traditional IRA dollars to charity can reduce the amount of the taxable estate and use a tax-inefficient asset for heirs to do so. Note that a contingent beneficiary receives the funds only if the primary beneficiary predeceases the owner or disclaims the inheritance, so the estate tax benefit is not automatic when a charity is named only as a contingent beneficiary.

CREATE A PRIVATE FOUNDATION

A concept that takes the DAF concept to the next level is the private foundation. A private foundation is established by an individual, family, or corporation and can support charitable endeavors directly. Think of the DAF as a way to lend financial support to other public charities, while a foundation can make grants and, subject to applicable rules, may also conduct its own charitable programs. The foundation is often used to create a legacy beyond one's lifetime and/or allow family members to be employed (subject to self-dealing rules limiting compensation to reasonable and necessary services) or serve as members of the board, and subject to limitations, support can go to organizations other than section 501(c)(3) public charities.

Gifts of cash or publicly traded securities to a private foundation may receive a charitable income tax deduction, subject to the private foundation percentage limitations and applicable valuation rules. Unlike gifts to public charities, donations of certain non-publicly traded appreciated property, such as real estate or privately held stock, may be deductible only at the donor's basis rather than fair market value. Even publicly traded stock loses fair market value treatment to the extent the donor and family members have contributed more than 10% of a company's outstanding stock. Private foundation deductions are also more limited than those for gifts made to DAFs or directly to public charities: 30% of AGI for cash donations, compared with 60% for public charities and DAF sponsors, and 20% of AGI for long-term capital gain property to private foundations, compared with 30% for public charities and DAF sponsors. Foundations face a modest excise tax on net investment income and generally must distribute roughly 5% of their investment assets annually, with significant IRS penalties for non-compliance.

While a private foundation can be an excellent family giving vehicle that leaves a lasting legacy, the legal, accounting, and administrative cost and effort make them unattractive for most. Given the added complexity and cost, a private foundation is typically something more suitable for the ultra-high-net-worth family that wants to be very involved in their charitable endeavors and/or leave a legacy.

Conclusion

Charitable giving is an important part of the overall financial plan, not just something to think about near year-end. Wisely considered sources and methods of donations can lead to a greater impact for the charity and better tax outcomes for the donor. We are here to help you sort through the options, understand how periodic tax law changes can impact you, and ultimately help make decisions that are best for you and your family.

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