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Cherry Tree Wealth Management

CHERRY TREE WEALTH INSIGHTS: Published by Keith Tufte, Investment Advisor at Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.

CHARITABLE GIVING STRATEGIES FOR 2025 AND 2026 — NEW TAX LEGISLATION

The recently passed One Big Beautiful Bill (BBB) contains several changes to charitable giving tax laws. As is often the case, the new tax law makes things more complicated regarding charitable giving and income taxes. These new tax laws may change the best charitable giving strategies and the best timing of charitable gifts for you.

What are the charitable tax law changes?

Donors who take the standard deduction will be allowed (in 2026 and beyond) to deduct up to $1,000 (single) or $2,000 (joint filers). Donors who itemize their income taxes in 2026 and beyond will not be allowed to deduct the first 0.5% of their income (Modified Adjusted Gross Income) on their tax return. Only charitable gifts above that limit will be deductible. Thus, donors who have an income of $300,000 will get no tax deduction for the first $1,500 of charitable donations on Schedule A (itemized deductions) on their tax return.

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Charitable gift tax law depends on how you file-standard deduction or itemized deductions

This is where it gets more complicated. Tax law changes in the BBB may change how many people will be using the standard deduction vs. using itemized deductions in 2025 and 2026. The standard deduction has been increased slightly for all taxpayers in 2025 and 2026 for all taxpayers. The standard deduction will also be increased significantly ($6,000 per person) for people over age 65 who have incomes below certain limits ($75K single and $150K couple). This extra $6K (single) or $12K (couple) for age 65+ taxpayers with incomes below the limits applies whether you use the standard deduction or itemize.

The state and local (SALT) tax deduction has been expanded from a $10K limit up to a $40K per tax return starting in 2025 for people with incomes below $500,000. This may cause some people (especially those from high tax states like Minnesota) to be better off itemizing their deductions in 2025 rather than taking the standard deduction. This may cause more of your charitable donations to be tax deductible starting in 2025.

Charitable Giving Strategies for 2025 and 2026 to Maximize Tax Deductions

If you are taking the standard deduction in 2025 and donating smaller cash amounts ($2K or less) to charity:

- Wait until 2026 to make the cash donations to get the new tax deduction of $1,000 (single) or $2,000 (couple). Those small cash donations are not tax deductible in 2025.

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If you are taking the standard deduction in 2025 and 2026 and gifting larger amounts to charity, and you are age 70+:

- Gift smaller amounts of up to $1,000 (single) or $2,000 (couple) in 2026 rather than in 2025 to get the tax deduction.
- Gift amounts above that level from your IRA as a qualified charitable distribution (QCD) if you are age 70+. This allows you to donate to the charity, not pay income taxes on the IRA withdrawal, and the charitable gift counts against your required minimum distribution if you are age 73+.

If you will be itemizing your tax deductions in 2025 and 2026:

- Lump your charitable donations by making a larger than normal gift in one year, and then little or no gifts for several years. This often allows more of your charitable donations to be tax deductible.
- Do a large gift in 2025 rather than in 2026 because this year the whole gift will be counted as an itemized deduction. In 2026 the first .5% of your income hurdle starts where that first amount is not tax deductible.
- If you are age 70+, consider making charitable gifts out of your IRA account (qualified charitable distribution-QCD) as those are always fully counted as a tax benefit. There is no tax on the IRA withdrawal which would typically be 100% taxed as ordinary income. This tax benefit is different than an itemized tax deduction and is not an itemized deduction. This IRA QCD donation will often be the best charitable strategy in 2026 (once the .5% of income hurdle kicks in) and is an even better benefit once you are age 73+ as these QCD donations also count against your IRA required minimum distribution.

Charitable Donor Advised Funds (DAF)

For people who make large charitable gifts, another smart consideration is to set up a charitable donor advised fund (DAF). These DAFs can allow a nice double tax benefit for charitable donors. You can make a charitable gift of appreciated securities with big capital gains to your DAF (at Schwab or Fidelity) and get the itemized tax deduction for the full market value of the gift. You also avoid the imbedded large capital gains (and capital gains tax) by making a charitable gift this way. Any growth in the value of the funds in the charitable DAF will benefit your charities. This growth will not be income taxable for you and will be out of your estate for estate tax purposes.

These DAFs also make it easier to "lump" your charitable giving (strategy mentioned above) as you get the tax deduction when you gift to your own donor-advised fund, but you can then distribute the money from your DAF to the charities gradually over as many years as you want. We have helped many clients set up charitable donor advised funds and most people love them.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at http://www.cherrytree.com.

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