



CONGRESS'S NEW TWO-TIER CHARITABLE DEDUCTION: MORE COMPLEXITY, WEAKER INCENTIVES

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The July 2025 reconciliation bill (also known as the One Big Beautiful Bill Act, or OBBBA) substantially changed and complicated the landscape of tax incentives and charitable giving. We focus here primarily on the main source of confusion: the choice it offers taxpayers between two charitable deductions. In theory, Congress intended this reform to provide a “universal incentive” to all taxpayers, but it largely failed and created a messy system of subsidies.

Under 2025’s reconciliation law, commonly called the One Big Beautiful Bill Act (OBBBA), taxpayers now face two options for deducting charitable gifts: a modified benefit for those who itemize and a capped deduction for those who claim the standard deduction. Our concern is that this new hybrid “universal deduction,” which grants some form of charitable deduction to all taxable returns, is far from a “universal incentive.” In fact, Congress effectively gave some taxpayers a new tax incentive, left many others without one, and imposed a disincentive on some relative to former law. Along the way, it *excluded from any incentive many of the most generous taxpayers*, whose contribution levels indicate they would be most likely to increase their giving in response to an incentive. As a result, we find it *reduced incentives for substantially more charitable contributions than it increased*.

Beyond these economic incentives, it created a ceiling on the deduction for nonitemizers that likely will act as an “anchor,” or psychological disincentive, signaling that people should limit their contributions to that amount. Taxpayers may struggle to navigate this complex arrangement as they try to understand the incentives facing them. If taxpayers do not understand the incentives they face, they may simply ignore them—eliminating a major purpose of a deduction in the first place.

In contrast, a single universal deduction for all taxpayers, with deductions disallowed for contributions below a floor, would eliminate these disadvantages. It would provide a universal incentive available to all taxpayers, be easier to understand, and replace the “anchor” with a “springboard” effect. Regardless of the level of revenue loss Congress decides to accept for charitable deductions, it would yield more charitable contributions per dollar of revenue cost.

THE NEW WORLD OF CHARITABLE DEDUCTIONS

Here is how the new dual deduction system works:

- Taxpayers who do not itemize their deductions can deduct up to \$1,000 in cash contributions from their taxable income (if single) and up to \$2,000 (if married and filing jointly).
- Taxpayers who itemize charitable and other deductions in lieu of the standard deduction available to nonitemizers can still deduct cash and noncash contributions, but only if their charitable contributions exceed 0.5 percent of their adjusted gross income (AGI).

This mix of dollar ceilings and percentage floors makes it difficult for taxpayers to decide whether they will itemize before filing. Hence, many will not fully recognize the available incentives. Uncertainty about the tax incentive and its exact size can easily blunt its effect, as illustrated below.

Many of the taxpayers who face a reduced incentive to give fall into a special group we call “switchers”: taxpayers who would have itemized but now switch to the standard deduction and also take the new capped deduction for nonitemizers. For example, consider a single taxpayer with \$80,000 AGI, \$4,000 in cash contributions, and \$13,000 in other deductions (see table 1). Under the new half of 1 percent floor, the first \$400 of this taxpayer’s donations as an itemizer are not deductible, leaving \$3,600 of contributions deductible if the taxpayer continues to itemize. Total itemized deductions would be \$16,600 (\$13,000 + \$3,600). With a standard deduction of \$16,500 (an approximation for 2027) and no nonitemizer deductions, the taxpayer would still itemize. But with the charitable deduction for nonitemizers, the taxpayer would now take the \$16,500 standard deduction plus \$1,000 in charitable deductions, for a total of \$17,500.

TABLE 1
A Taxpayer with a Tax Reduction and a New Incentive to Give Less

[AGI = \$80,000; Noncharitable Deductions = \$13,000; Contributions = \$4,000;
Standard Deduction (2027 estimate) = \$16,500]



Item	Dollar Value
Total Deductions If Itemizing (after taking account of 0.5% floor)	\$16,600
Standard + Nonitemizing Deduction	\$17,500
Taxable Income If Itemizing	\$63,400
Taxable Income with Standard Deduction	\$62,500
Tax Savings in 22 Percent Tax Bracket	\$198

Source: Authors’ calculations

By taking the better deal, the taxpayer now has no incentive to give more than \$1,000, and will likely reduce their contributions relative to tax law before the OBBBA. By contrast, without the new provision allowing a nonitemizer deduction, the taxpayer would retain an incentive to maintain or increase their \$4,000 contribution. Thus, the nonitemizer deduction reduces this taxpayer’s tax bill, the incentive to give, and the amount likely given.

Note that when itemizing, the taxpayer pays a net cost of \$3,208 for \$4,000 in charitable giving, since the government covers the remaining \$792 ($0.22 \times \$3,600$ of deductible contributions). To illustrate how this tax provision can reduce charitable giving, suppose the taxpayer wanted only to sacrifice the same net amount of \$3,208. Then the taxpayer would give only \$3,428 rather than \$4,000 (since the government would now cover only \$220, or 22 percent of the maximum

\$1,000 of contributions). Thus, charitable giving would fall by \$572. This case is not unusual. The data below indicate that a significant share of taxpayers receive either no incentive to give or an incentive to give *less* under this new law.

HOW WILL TAXPAYERS DECIDE WHICH DEDUCTION TO TAKE?

Figures 1 and 2 outline the extraordinary complexity of these relationships for taxpayers in calendar year 2026. Each of the four panels shows how taxpayers will determine their itemization status in response to the changes in tax law brought by the OBBBA. The panels are organized as follows:

Itemizers, Switchers, and Standard Deduction Remainders

- Light gray bars represent taxpayers who would itemize under prior and current law.
- Orange bars represent taxpayers who would switch from itemizing to the standard deduction.
- Dark gray bars represent those who would take the standard deduction under prior and current law.
- Blue bars, in theory, would represent those who would switch from the standard deduction to itemized status, but since almost no one falls into this category, they are not included in the graph.

Those Above and Below the Ceiling and the Floor

- The panels on the left (right) represent taxpayers whose cash contributions are below (above) the \$1,000/\$2,000 ceiling.
- The top (bottom) panels represent those who contribute more (less) than 0.5 percent of their AGI, including cash and noncash contributions.

The result is sixteen combinations of taxpayers, classified by four itemization statuses (before and after the reform) and by four combinations of individual giving relative to the combined nonitemizer giving ceiling and the itemizer giving floor. As noted, only twelve combinations have a significant number of taxpayers (few would convert from standard deduction to itemizer), and that number will fall to nine as we look more closely at data from TPC's Tax Model. Each group's change in incentive is also labeled.

TAXPAYERS AND CHARITABLE CONTRIBUTIONS FALLING WITHIN THE DIFFERENT INCENTIVE CATEGORIES

We now organize this discussion into the four categories of giving relative to the floor and ceiling. These estimates exclude taxpayers with no charitable giving, and taxpayers with little or no federal tax liability (less than \$10) under current or prior law.¹

Less than \$1,000 or \$2,000 and More than 0.5 Percent of AGI (Upper-Left Panel)

Some 31.7 million taxpayers (figure 1) who make charitable contributions fall into this category, most of them in the bottom three income quintiles. We estimate that under prior law they would have contributed \$51 billion (cash and noncash) in 2026 (figure 2). The upper-left panel illustrates the following:

- Those who would take the standard deduction under prior and current law, on average, will increase their contributions because they will receive a new subsidy for additional giving. This incentive effect is consistent with the notion of creating a more universal deduction.

- Taxpayers who itemize under the old and new law tend to give the same amount because they have already received an incentive and will therefore continue to give roughly the same amount as before.
- Itemizers who switch to the standard deduction continue to have an incentive because their level of giving is fairly low, so they also tend to contribute the same amount.

Less than \$1,000 or \$2,000 and Less than 0.5 Percent of AGI (Lower-Left Panel)

This group of very modest givers, who give less than both the nonitemizer ceiling and the itemizer floor, comprises only 7.5 million taxpayers. We estimate that, under prior law, they would give \$4.5 billion in 2026. The lower-left panel illustrates the following:

- Some taxpayers increase their contributions, while others decrease theirs.
- Taxpayers taking the standard deduction under prior and current law tend to increase their contributions because they receive a new subsidy for charitable giving.
- Taxpayers who itemize under prior and current law tend to give less because they lose the subsidy they received under prior law due to the new 0.5 percent floor.
- Taxpayers who switch to the standard deduction already received an incentive under prior law and, because of their modest level of contributions, continue to receive one, so they tend to give the same amount.

More than \$1,000 or \$2,000 and More than 0.5 Percent of AGI (Upper-Right Panel)

Some 31.3 million taxpayers fall into this category, most of them in the top two income quintiles. They account for a very large share of total giving under prior law, approximately \$339.9 billion in 2026. The upper-right panel illustrates the following:

- Almost everyone in this group either loses the incentive to give or, at best, retains it. Thus, most taxpayers will contribute about the same amount, but a significant share will lose the incentive they had and contribute less. This largely explains why the design of the nonitemizer deduction in the new law may well not increase contributions.
- Taxpayers taking the standard deduction under prior law did not receive an incentive to give, and they still do not receive one under current law because each additional dollar they give exceeds the nonitemizer ceiling of \$1,000/\$2,000. Thus, they tend to give the same amount under prior and current law.
- Taxpayers who remain itemizers also tend to give the same amount because they continue to receive the same incentive.
- Itemizers who switch to the standard deduction lose their incentive because they are already above the ceiling. But they still get a tax break.

More than \$1,000 or \$2,000 and Less than 0.5 Percent of AGI (Lower-Right Panel)

This very small group of 0.5 million high-income taxpayers is mainly composed of itemizers who give only a small percentage of their income to charity. (In aggregate, they give less than \$3 billion to charity.) For a married couple to give more than \$2,000 but less than 0.5 percent of AGI, their AGI must be over \$400,000. Many will switch so as to get a tax cut, but regardless, they have no incentive at the margin whether they itemize or take the standard deduction.

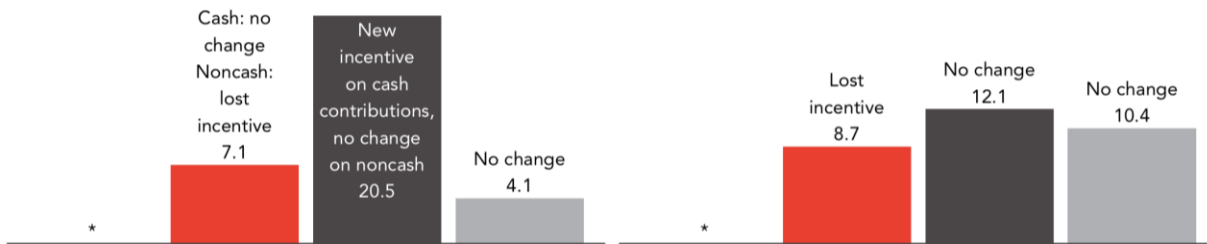
FIGURE 1

Tax Units by Deduction Status and Contribution Amount

Prior law versus OBBBA, 2026, millions of filers

- Standard deduction under prior law, itemizes under current law
- Itemizes under prior law, standard deduction under current law
- Standard deduction under prior law and current law
- Itemizes under prior law and current law

Total contributions above 0.5% of AGI Cash contributions up to \$1000/\$2000 Total contributions above 0.5% of AGI Cash contributions over \$1000/\$2000



Total contributions below 0.5% of AGI Cash contributions up to \$1000/\$2000 Total contributions below 0.5% of AGI Cash contributions over \$1000/\$2000



Source: Tax Policy Center Microsimulation Model (version 0524-1).

Notes: Tax units exclude dependents, those with zero imputed charitable contributions, and those with tax liability below \$10 under both prior law and current law. Prior law is defined as 2026 tax law absent the enactment of OBBBA.

* A negligible number of taxpayers who would take the standard deduction under prior law would itemize under current law (blue bar).

In sum, to the extent the new law encourages charitable contributions, it primarily incentivizes those who give less than \$1,000/\$2,000 and remain on the standard deduction. To the extent the law discourages giving, it mainly affects those who switch from itemizing to taking the standard deduction and those who remain itemizers but give less than 0.5 percent of AGI. A very large group receives no change in incentives under the new law. The more generous nonitemizers who give more than the floor amount are particularly left out. Based on their past generosity, moreover, they are the ones most likely to respond positively to an incentive.

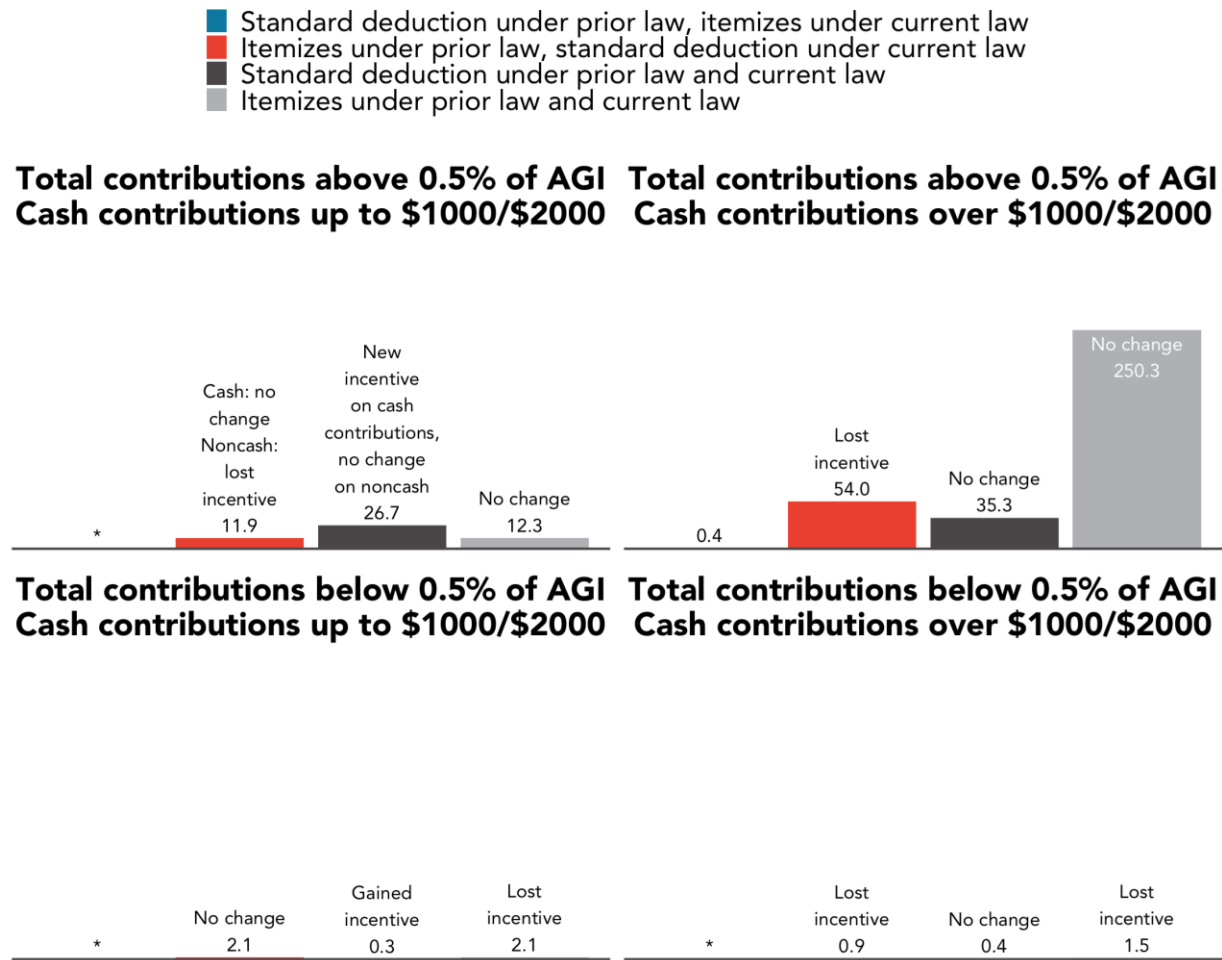
Figure 2 emphasizes the large share of contributions made by two groups: the many switchers who lost an incentive to give, and those who had no incentive before or after the change in law, especially those generous givers who remain on the standard deduction but already give more than the floor. The share of all contributions made by these non-benefiting and disincentivized groups significantly exceeds their share of taxpayers. Perhaps most striking, *contributions among taxpayers losing an incentive were over twice as large as contributions among taxpayers gaining an incentive.*

Further adding to the net disincentive effect of the law over time is the lack of any indexing for the maximum amount of charitable deduction allowed to nonitemizers. As their incomes grow, taxpayers will increase their contributions to keep up with inflation; thus, an ever-larger share of contributors will lose their incentive to give over time.

Given these findings and other changes not examined here, such as reducing the top deduction rate to 35 percent, the OBBBA’s net impact on charitable giving is likely negative despite its implied claim of creating a *universal charitable incentive*.

FIGURE 2
Charitable Contributions by Tax Units’ Deduction Status and Contribution Amount

Prior law versus OBBBA, 2026, billions of dollars



Source: Tax Policy Center Microsimulation Model (version 0524-1).
Notes: Tax units exclude dependents, those with zero charitable contributions, and those with tax liability below \$10 under both prior law and current law. Prior law is defined as 2026 tax law absent the enactment of OBBBA.
* A negligible number of taxpayers who would take the standard deduction under prior law would itemize under current law (blue bar).

Complex and Confusing

The added complexity of the OBBBA will make it difficult for taxpayers to know whether an incentive is even available, especially if their contributions are typically near a floor or a ceiling.

- If they know they will not itemize their deductions, they will need to know whether their contributions are above or below the nonitemizer threshold.
- If they know they will itemize their deductions, they need to determine whether their contributions will exceed 0.5 percent of their AGI.
- Those who cannot determine in advance whether they will itemize or take the standard deduction have the greatest difficulty. They must estimate their projected deductible contributions (the amount of contributions in excess of 0.5 percent of their AGI) plus other deductions and compare that amount with the sum of the standard deduction and the minimum of their contributions and the nonitemizer contribution limit.

An additional disincentive stems from the ceiling’s *anchoring effect* on deductions for nonitemizers. Wu (2025) describes anchoring effects in the context of pension and retirement funds. For example, a default contribution of 3 percent encourages contributors to 401(k) plans to stick with that percentage as a maximum, believing it meets an implicit social standard for how much to save for retirement. Here, the \$1,000 or \$2,000 limit likely will lead many people to conclude that is all they “should” contribute. If enough people set such negative expectations, contributions could fall dramatically, especially over time as the limit increasingly fails to keep up with both inflation and real wage growth.

CREATING A TRULY UNIVERSAL INCENTIVE

In a separate brief (Steuerle, McClelland and Airi 2026), we examine an alternative to current law: a single universal deduction for contributions above a small percentage of AGI. Not only would that system be much simpler, but for the same revenue cost, it would increase charitable giving relative to the complex and confusing OBBBA system.

Further, rather than an *anchor effect* that would limit deductions, this simpler form of deduction would create a *springboard effect* for giving at least or more than a minimal social amount. This alternative would also be universal in that it gives everyone with at least positive tax liability a chance to receive a deduction, as long as they give more than a modest floor set at a level below the average rate of giving.

The bottom line: despite goals to create a more universal deduction and increase charitable contributions, the current system makes taxpayers’ lives very complex tends to work against those goals. Regardless of the size of charitable deduction, a floor works better than a ceiling to constrain costs while maximizing the incentive’s effect.

APPENDIX: OTHER RECENT TAX LAW CHANGES THAT AFFECT CHARITABLE GIVING

In our calculations above, we did not examine changes that might arise from gifts of appreciated property. The \$1,000/\$2,000 charitable deduction for nonitemizers applies only to cash gifts. In addition to the two forms of deduction now allowed under the law, numerous other changes in recent years have significantly altered the landscape for giving.

Under the Tax Cuts and Jobs Act (TCJA), the standard deduction for single taxpayers increased from \$6,500 to \$12,000 in 2018.² Married couples filing jointly received a similar increase. As a result, many taxpayers stopped itemizing—the share of taxpayers who itemized fell from 31 percent in 2017 to 8 percent in 2022. Although that higher standard deduction was initially scheduled to expire, under the OBBBA the increased deduction became permanent, set at \$16,100 in 2026 for a single taxpayer.

The TCJA also imposed a \$10,000 cap on the deduction for state and local taxes (SALT). Even without the increased standard deduction, that cap meant it no longer made sense for many taxpayers, especially in high-tax states, to itemize. Like the increased standard deduction, this change was scheduled to expire on December 31, 2025. The OBBBA made the

increase in the standard deduction and the SALT cap permanent, although the SALT cap was raised to \$40,000 through the end of 2029. Uncertainty surrounding the SALT deduction in future years also adds to tax planning uncertainty, particularly for contributions made over time.

In addition, the TCJA limited the home mortgage interest deduction to \$750,000 of mortgage debt, down from \$1 million, and increased the limit on charitable contribution deductions from 50 percent to 60 percent of AGI. The OBBBA made both of these changes permanent.

Separately and in combination, these changes have both direct and indirect effects on contributions. Retaining the higher standard deduction and capping the deduction for state and local taxes both reduce the number of taxpayers who itemize. Reducing the benefit of itemizing for those in the top tax bracket also reduces the incentive to contribute among those who make a large share of total contributions. In addition, the benefit of aggregate deductions for taxpayers in the 37 percent tax bracket (and any higher rate Congress might adopt in the future) has been capped at 35 percent. This means that an itemizer in the 37 percent tax bracket can typically reduce their taxes by \$35 for contributing an extra \$100.

NOTES

- ¹ Taxpayers who make no contributions would likely not start giving or only give a very small amount in response to an incentive. Those with very small tax liabilities will lose their tax incentive when they give enough to reduce their taxes to zero. These exclusions reduce total giving in our analysis from \$430.4 billion to \$402 billion.
- ² See “How Did the TCJA and OBBBA Change the Standard Deduction and Itemized Deductions?” in *The Briefing Book*, Tax Policy Center, accessed September 8, 2026, <https://taxpolicycenter.org/briefing-book/how-did-tcja-change-standard-deduction-and-itemized-deductions>.

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