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ANALYSIS

What the New Tax Law Might Mean for Giving: A Preview

Some provisions are likely to drive more donations, while others may depress giving. We puzzle out the potential impact on nonprofits.

Will the New \$2,000 Tax Break Bring Back Everyday Donors?

Some experts are optimistic that a deduction for people who don't itemize can reverse a long-term decline in donors.

By BEN GOSE

REGULAR PEOPLE have fallen away from organized giving. Can a new tax deduction bring them back?

The new tax break, which takes effect in 2026, will provide people who don't itemize their taxes a charitable deduction worth up to \$1,000 for singles and \$2,000 for couples. Part of the recently passed tax legislation, the new deduction is the result of years of lobbying by nonprofit advocates who worry that the collapse in giving by everyday donors could lead to long-term problems for the nonprofit world.

"It's no silver bullet, but it's one piece of the shift toward democratizing giving," says Shannon McCracken, president of the Nonprofit Alliance, an advocacy group. "Finally, our government is saying that all giving levels are valuable — not just those gifts coming from higher-income people."

Fewer than half of Americans give to organized charities, down from nearly two-thirds as recently as 2008. The decline worsened after the sharp increase in the standard deduction in 2017. That change led to a drop in the number of people who itemize, now under 10 percent — meaning that most people receive no tax benefit from their giving. A study by three academic researchers found that the loss of giving incentives accounted for a \$20 billion drop in giving in 2018, the first year the change was in effect.

Making matters worse, the change may have prompted a shift among lower- and middle-income families toward more informal ways of giving, experts say. When the pandemic struck, the tax code gave little incentive to favor the organized charity over other forms of generosity, such as helping a cash-strapped neighbor in a GoFundMe campaign. (Very small charitable deductions were available for non-itemizers during a brief window, in 2020 and 2021.)

"Unfortunately, your local food bank or domestic-abuse shelter can't survive on crowdfunding," says Brian Walsh, executive director of Faith and Giving, a coalition of faith-based organizations that lobbied for this year's non-itemizer deduction. "It has its place, but it's not a sustainable path for taking care of the needy."

What also got lost, argues Jason Zwang, a fundraising consultant in Atlanta, was the structure

around giving to charities. With no tax incentive at stake, many couples and families that gathered annually over the holidays to discuss year-end giving let that tradition trail off.

"Once the itemization went away, there was just no need for many households to structure their giving or have those conversations," Zwang says.

The new non-itemizer deduction gives charities a hook to try to bring lapsed donors back, he says.

"I think it's important to re-engage those audiences and say, 'Hey, we're back. We want to let you know about this legislation — it's an opportunity for both of us,'" Zwang says.

An analysis by Capital Policy Analytics, made before the bill passed, estimated that a smaller deduction — just \$500 for individuals and \$1,000 for couples — would have increased charitable donations by \$11 billion per year. So the incentive that passed, with limits that are twice that high, would stimulate giving even more, perhaps to the tune of \$20 billion per year.

"We can certainly assume that we're talking billions of dollars a year in additional giving that's coming into the sector," McCracken says.

The non-itemizer deduction does come with some conditions — the gifts must be made in cash, and contributions to donor-advised funds aren't eligible.

The new incentive will likely benefit small and midsize charities the most, especially those for whom \$2,000 is a significant gift.

"It means that more organizations and more causes will be supported, including those that are working very much at the community level — smaller organizations that aren't on the radar of the larger contributors," McCracken says.

May Not Move the Needle

Others foresee less of an impact. Tax incentives are most effective at driving behavior among wealthier donors — in part because more money is involved, and also because they're taxed at higher rates, so their savings for every donated dollar is higher.

For a non-itemizing, middle-income couple in the 24 percent tax bracket — with taxable income between \$103,351 and \$197,300 — giving \$2,000 to charity in 2026 would result in a tax break of \$480.

Woodrow Rosenbaum, chief data officer at

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THE TOP LINE

- Starting next year, people who don't itemize their taxes will be able to take a charitable deduction worth up to \$1,000 for singles and \$2,000 for couples.
- An analysis suggests that the new deduction could increase giving, perhaps by as much as \$20 billion per year.
- But some experts think it's unlikely to move the needle, in part because tax incentives are most effective in driving behavior among the wealthy.

“It’s no silver bullet, but it’s one piece of the shift toward democratizing giving.”

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GivingTuesday, says that kind of incentive isn’t necessarily going to move the needle. Rosenbaum doubts many people will suddenly decide to become charitable simply because their cost of giving has been reduced by about a fourth.

“At the everyday-giving level, those givers are less incentivized by tax deductions,” he says.

Where the legislation might help, he thinks, is in motivating charities to re-engage with donors. That’s a message Rosenbaum and Giving Tuesday have been hammering for years — that charities are leaving money on the table by not soliciting people who are ready to give.

“Even if this has minimal motivating power on the taxpayer, if it wakes up fundraisers to the need and opportunity to engage more broadly, that’s fantastic,” Rosenbaum says.

Some experts say the real payoff if millions more Americans return to giving will be recognized over decades — not next year. Bob Guittard, a fundraising consultant in Austin, Tex., says small-dollar donors often migrate up the fundraising pyramid — making big gifts late in life or leaving generous bequests.

“You can’t retain donors unless you acquire donors,” Guittard says. “If charities are acquiring new donors because of this tax law — then cultivating them and upgrading them over time — that will lead to sustainable and scalable growth.”

Part of the reason for the drop-off among

everyday donors, he says, is an emphasis at the highest levels — among CEOs and chief development officers — on major gifts to the exclusion of almost everything else.

“This encourages them to not just focus on that short-term gain — the big gift to the comprehensive campaign — but also on what is going to help them grow in the most sustainable way over the next 10 to 20 years,” Guittard says.

Time to Prepare

How should charities go about promoting the new incentive? That’s tricky for a couple of reasons. First, the incentives haven’t gotten better for everybody; in fact, the new tax law makes it harder on the wealthier donors who itemize. They will now need to exceed a 0.5 percent floor on their charitable giving before they receive any tax benefit. The floor helped to pay for the non-itemizer incentive in the tax legislation and win support for the combined measure in Congress.

Charities don’t need to get granular with donors on the details, McCracken says. “There’s an opportunity for fundraisers to promote all of this as an incentive to increase giving.”

Timing is also a challenge, with the changes not taking place until 2026. Guittard says the delay gives charities time to develop a budget and strategy for investing in donor cultivation or new messaging about the changes.

“Now could be a great time — before the new law is in place — to start mapping out strategic investments for next year.”

Big Gifts and the New Tax Law: Boom Now, Bust Later?

High-earners may make big gifts in 2025, but their giving may decline next year.

By RASHEEDA CHILDRESS

NONPROFITS THAT HELP high-earning donors better understand the implications of the recently passed tax legislation could see a boost in donations in 2025, say fundraisers and experts familiar with the law. However, economists predict these same donors could decrease their giving starting in 2026 because of the new rules — although some caution it’s too soon to tell how donors will react in practice.

The recently passed “Big Beautiful Bill” has a variety of provisions that affect charitable giving. While one provision allows everyday donors who take the standard deduction to also take a

charitable deduction of up to \$2,000 for married filers, other provisions chip away at tax breaks for itemizing donors, who tend to be high-earners. The bill requires itemizers to give 0.5 percent of their income before they get any charitable deduction and caps those deductions at 35 percent, which is lower than the 37 percent maximum tax rate.

“The challenging part of measuring each of these provisions and the changes is there are so many moving parts,” says Brian Flahaven, who has been following the law closely and serves as vice president for strategic partnerships at the Council for Advancement and Support of Education. While he thinks the charitable deduction for non-itemizers will help giving, the cap for

high-end giving is concerning. “Limitations are typically going to have a negative impact on giving,” he says. “We’re going to have to see how it all shakes out once we experience it.”

2025 Could See Big Giving

Because new provisions like the cap on charitable deductions for itemizers won’t take effect until 2026, donors have an incentive to make their big gifts this year, says Laura MacDonald, founder of the Benefactor Group, a fundraising consultancy.

“We’re talking to our clients right now about making sure their donors are aware of this if they’re involved in a multiyear pledge,” she says, “because donors may want to accelerate their ’26 payments and make them in ’25 when they can take full advantage of the existing 100 percent deduction.”

MacDonald stresses that it’s important for fundraisers “to become really well educated” about the implications of the law so they can talk to donors about it. Communicating these implications can be tackled in a variety of ways — emails, letters, calls — but the key is sharing the information, says Lynn English, president of English Hudson, a fundraising consulting firm.

Organizations should talk to donors they believe would be affected by the changes, English says. If staff capacity is limited, “you could do a webinar around it as an organization and invite people to learn more.”

There is historical evidence to suggest donors will give more this year. Research conducted by Mark Ottoni-Wilhelm, a professor of economics at IU Indianapolis, and others found that the passage of the Tax Cuts and Jobs Act in 2017 caused donors to give \$4 billion in advance of the tax law taking effect, leading to a bump in giving.

Flahaven, with CASE, believes the same thing could happen in 2025. “I think you’ll see a spike in giving this year,” he says. “Arguably in 2017, there weren’t a whole lot of direct changes on taxpayers, but we still saw a huge spike in giving.”

If there is a spike this year, Marliissa Hudson, CEO of English Hudson, cautions nonprofits to remember the boom might from tax concerns and won’t necessarily happen again next year. “Please for the love of everything, don’t look at that and make your budget for 2026 based on what happened in 2025.”

Impact on Giving Beyond 2025

Most folks agree that it’s a good time to encourage big donors to give before the tax law changes, but researchers predict that once the law takes effect, there will be a decline in gifts from high-earners who itemize.

A research memo from the Lilly Family School of Philanthropy at Indiana University estimates that the 35 percent cap on gift deductions will decrease giving. The range of the estimated decrease is wide because it will depend on how sensitive donors are to the tax changes. “The [estimated] lost charitable contributions range from approximately \$2 billion to \$8.2 billion,” the research memo says, noting that that would be a decline of

THE TOP LINE

- Under the new tax bill, donors who itemize will need to give 0.5 percent of their income before they get any charitable deduction, and those deductions are capped at 35 percent.
- Because the new provisions don’t go into effect until 2026, donors have an incentive to make their big gifts this year.
- The changes may depress giving over time. One estimate predicted a decrease between approximately \$2 billion to \$8.2 billion.

1.6 percent to 6.3 percent in giving.

The other provision, the 0.5 percent floor donors must reach to deduct charitable gifts, could also result in less giving, says Ottoni-Wilhelm, who co-authored the Jobs Act research and focuses on economics and philanthropy at the Lilly Family School.

Ottoni-Wilhelm says a family with an adjusted gross income of \$400,000 would have to donate more than \$2,000 to get a tax deduction under the new rules.

Families that give less than that amount — say, \$1,000 a year — would no longer receive a tax deduction for giving if they continued to itemize. “The change is going to be a big price increase in their giving,” Ottoni-Wilhelm says. “So the prediction is those families will give less than the original, say \$1,000, they were giving.”

However, if that same family were giving \$5,000 or \$6,000 annually, Ottoni-Wilhelm says, the effect of the tax changes would be smaller. “Their giving is predicted to drop a little bit,” he says. “It’s going to act like a small income effect on those people.”

The problem with the new law is so much of it is based on percentages of income, making it complicated for donors to figure out what makes the most sense for them, experts say. MacDonald, at the Benefactor Group, says some families with an adjusted gross income of \$100,000 — who would need to donate more than \$500 to get a tax benefit — might do better taking the standard deduction along with the new charitable deduction for non-itemizers.

The good news, Ottoni-Wilhelm says, is “complication in the American tax system for individual income-tax payers is not a new thing.” Families who itemize often do taxes multiple ways to see what is most advantageous and will continue to do so under the new schema.

Another factor to consider: A bump in the amount of state and local taxes that people can deduct may push more people from the standard deduction to itemizer status, say Flahaven and MacDonald. This makes it harder to know what will happen until people are in the thick of it,

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“Donors may want to accelerate their ’26 payments and make them in ’25, when they can take full advantage of the 100 percent deduction.”



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MacDonald says. “This experience isn’t actually going to hit home until February or March of 2027 when people are doing their 2026 taxes.”

Dealing With Donors

Next year, when fundraisers talk to high-earning donors — who will face both the floor to get a charitable deduction and the ceiling on how much they can deduct — it will be critical to convey the importance of giving, MacDonald says.

“The most effective thing you can say to a donor is, People like you make gifts like this to a cause like ours,” she says, adding that storytelling around gift giving should resonate with donors.

Board members can be a good source of stories. “Talk with your board, have them talk with their financial advisers, have them make gifts that take advantage of this new tax environment, and then tell the story,” MacDonald says.

Itemizing donors sensitive to the changes in the charitable deduction will also test a variety of tax strategies to overcome those challenges, Hudson says. One possibility is the idea of bunching — grouping donations into a single year to get over the deduction threshold but then not giving the following year.

“As they experience the floor and the ceiling and people are bunching — giving batches at a time — it could also mean that they don’t give to as many organizations as a whole,” Hudson says. “You need to draw those folks closer and really

stay connected with them. You need to stay closer to them to figure out when they’re planning on giving and to whom.”

Get the Right Message to the Right Donor

The tax law has different implications for everyday donors and wealthier supporters, so nonprofits need to segment their messages carefully, says MacDonald of the Benefactor Group.

With high-earners, it makes sense to focus on the urgency of year-end giving for the mission, with the added benefit of the greater tax advantages for making a gift in 2025.

But many everyday donors won’t be able to take a tax deduction for their gifts until 2026. “I’d want to be careful that none of your everyday donors feel that you did them a disservice by encouraging them to give by December 31, and then they find out that they could have gotten a deduction if they’d waited a week,” MacDonald says.

She recommends still stressing the urgency of year-end appeals but says organizations on a July-to-June fiscal year might want to keep the year-end giving window open until the second week of January.

“There might be a subtle message saying: Please give now. Although if your tax circumstances would be more advantageous for you to give in 2026, please give by January 15,” MacDonald says. “But I would make it subtle. I certainly wouldn’t lead with it.”



The Tax Law’s Big Win for Charities Makes DAF Giving Trickier

It may slow everyday donors’ adoption of DAFs — and lead some DAF donors to ‘bundle’ gifts.

By RASHEEDA CHILDRESS

THE TAX BILL included a big win for charities: a charitable deduction for everyday Americans who don’t itemize — \$1,000 for single people and \$2,000 for married couples. But the charitable deduction for non-itemizers is not available if the gift goes to a DAF.

“I’m sorry to see that because I thought that we had begun to see some democratization of donor-advised funds,” says Laura MacDonald, founder of the Benefactor Group, a fundraising consulting firm. Excluding DAFs from the tax benefit, she says, reduces the likelihood that small-dollar donors will give to them and codifies “DAFs as a tool of elite donors.”

As DAFs have become a more popular giving vehicle, there has been a growing push to encourage more everyday donors to use them. But the new tax changes add a wrinkle to that. It’s hard to know for sure how the tax law will affect taxpayers before it goes into effect next year, but many experts predict it will change how donors use DAFs — with the savviest taxpayers switching between itemization to donate to DAFs one year and taking the standard deduction and giving directly to charity other years.

Advantages for Itemizing Donors

Donor-advised funds are giving vehicles that let account holders take a charitable deduction

immediately when they put money into the fund, assuming they itemize their taxes. However, there is no timeline for when DAF holders have to distribute those funds to charities. DAFs have long been used by the wealthy to get tax benefits. In recent years, some sponsoring organizations have pushed to make DAFs a giving vehicle for small-dollar donors as well.

“Organizations like Groundswell that are creating these workplace donor-advised funds so people can do payroll deduction to fuel a DAF and use that for their everyday giving — that’s going to be more difficult now because those gifts are not going to be tax-deductible,” MacDonald says.

If DAFs had not been excluded, “I think we could have seen an explosion in DAF usage among everyday donors,” says Mitch Stein, head of strategy at Chariot, a company that offers a DAF payment tool for charities.

With DAFs on the cutting room floor, it’s not entirely clear how the new deduction for non-itemizers will affect donors, says Danielle Vance-McMullen, an associate professor at DePaul University who studies DAFs and donor behavior.

“We don’t know what the results will be, partly because there are two forces happening at the same time,” she says. Those forces are the increase in awareness of DAFs and the new law that gives a tax advantage to non-itemizers if the money is given directly to charity. “It could work out in either direction.”

Jeff Williams, a co-founder of the DAF Research Collaborative, suspects the change will not affect small-dollar, non-itemizing donors who use DAFs because there is no change for them. There is no tax advantage in DAF giving for non-itemizers in either the old or the new law. Many everyday donors who have DAFs, he says, are “bundling” — in other words, saving enough money for it to be worthwhile to donate a big sum to a DAF and itemize their taxes.

“The bundling behavior — I really don’t see it affected,” says Williams, who is the director of the Johnson Center Community Data and Research Lab at Grand Valley State University. “If anything, I see it a little bit supercharged under the new bill.”

For example, he thinks people who bundle because of a wealth event — like a bonus or stock market gains — will continue to give to DAFs in those years when it makes sense but will also give directly to charities in years they take the standard deduction. Stein, at Chariot, agrees.

“You could see some people want to do their first \$1,000 or \$2,000 direct to a nonprofit and then their other giving in their DAF,” Stein says. “I don’t see it dampening DAF usage because there hasn’t been a tax benefit for the past eight years. And we’ve still seen growth in everyday donors using it.”

Mark Ottoni-Wilhelm is a professor at the Lilly Family School of Philanthropy at Indiana University who regularly does research on how tax law affects charitable giving. He estimates that 10 to 20 percent of taxpayers who take the standard deduction are giving a bit more than \$2,000 a year to charity. Under the new tax law, they’ll likely “drop back to \$2,000” to get the full tax benefit.

If Stein and Williams are right, those types of families might take the additional money they

THE TOP LINE

- The new charitable deduction for non-itemizers — \$1,000 for single people and \$2,000 for married couples — is not available for gifts to donor-advised funds.
- Some giving experts think that will slow down everyday donors’ adoption of DAFs as a giving vehicle.
- It may also lead some DAF donors to alternate between itemizing their taxes and taking the standard deduction.

were giving and bundle it into a DAF contribution and itemize in a future tax year instead.

2025 Bump

Because the tax law doesn’t take effect until 2026, many who want to take advantage of this year’s itemizing rules are expected to give big this year. And a significant share of that giving could go to DAFs.

“There could be a bump in the same way that we saw a bump at the end of 2017 before the Tax Cut and Jobs Act took effect in 2018,” Williams says. “So I expect a bump of money into DAFs. It’ll probably be noticeable.”

Based on his research, money that goes into DAFs is often distributed in three to five years.

The new law introduced more complexity into the tax code. Starting next year, donors who itemize will need to give 0.5 percent of their adjusted gross income before they can take a charitable deduction, and deductions will be capped at 35 percent. This new intricacy could have undesirable consequences.

“It’s added some complications into the math of giving,” Williams says. “And that’s what I’m nervous about: People throw up their hands and say, ‘Eh, forget it.’”

The good news is that donors tend to use their DAFs for strategic giving, says Vance-McMullen, meaning they’re thinking about their long-term goals and are often getting advice from tax planners. And despite the fact that the tax changes may affect how donors choose to fund their DAFs, it’s unlikely to affect money leaving DAFs.

“I don’t think the tax changes are going to change how people grant out of their DAFs,” Vance-McMullen says. “Most people are operating with the heart strongly and somewhat with the head in terms of their charitable giving. We sometimes overestimate the effect of these tax incentives for people’s giving. People want to give in the smartest way possible, but their overall impulse to give usually comes from the heart.” ■

“Most people are operating with the heart strongly and somewhat with the head in charitable giving.”