Sifting Through It: What's On The Legislative Menu That Could Impact Charitable Giving?

We all know that the new year and a new administration brings lots of potential change. So what is going on that you need to know about to serve your charitable clients?

At the top of the list of issues we're watching is what might happen with the Tax Cuts and Jobs Act (TCJA) of 2017. As a quick refresher, the TCJA introduced several changes that significantly impacted charitable giving in the United States. These changes are set to expire at the end of 2025, and their potential extension factors into charitable planning techniques.

You'll no doubt recall that the TCJA lowered individual income tax rates across the board, which in turn decreased the tax savings for each dollar donated, making charitable contributions slightly less attractive from a tax perspective. What's more, TCJA provisions nearly doubled the standard deduction. (In 2025, the standard deduction is $15,000 for single filers and $30,000 for a married couple filing jointly.) This increase led to a dramatic reduction in the number of taxpayers who itemized their deductions. As a result, fewer taxpayers could claim charitable deductions, potentially discouraging giving among those who previously itemized. Indeed, research estimated that U.S. charitable giving fell by about $20 billion in 2018, the first year the TCJA was in effect.

In addition, the TCJA roughly doubled the estate tax exemption, which has reached $13.99 million per person for 2025. The higher exemption has diluted purely tax-driven motivations for charitable giving among your wealthy clients. With fewer estates subject to tax, many advisors are working with a smaller pool of clients for whom charitable bequests are a useful technique for reducing taxable estates.

Naturally, tax policy plays a role in your clients' charitable giving behaviors, and certainly the giving behaviors following TCJA reflected tax policy's influence. Nevertheless, studies have shown that most donors are motivated by factors other than saving taxes. Reasons for giving include a sense of duty to give back to society, a desire to tackle inequality, personal passion for specific charitable causes, religious beliefs, and dedication to supporting those less fortunate. Your clients who give to charity benefit emotionally from their gifts, and of course they like knowing that they are helping others and strengthening community ties. While tax benefits certainly are part of a client's decision-making process, they're likely a secondary consideration rather than the primary reason for giving. Indeed, even with tax benefits, your client will always end up with less money after making a charitable contribution, signaling that financial gain is not the main driver of philanthropy. Keep this in mind as tax developments unfold.

Despite the many unknowns, what we ***do*** know is that ***something*** will happen in 2025 that influences charitable planning. Although TJCA provisions are set to expire at the end of 2025, it's too soon to determine exactly how you should advise your clients about their charitable planning strategies. Note three potential outcomes of tax policy developments this year:

- If lawmakers extend the current TJCA provisions, existing patterns of charitable giving are likely to continue, with a potentially continued reduction in overall donations due to the higher standard deduction and estate tax incentives that motivate only ultra-affluent clients.
- If the TCJA's provisions expire without replacement, and the tax code reverts back to pre-TJCA rules, it could lead to an increase in charitable giving as more taxpayers return to itemizing deductions and face higher marginal tax rates.

Plus, a lower estate tax exemption would create a strong incentive for more of your clients to pursue lifetime and legacy gifts to charity to reduce taxable estates.

- New tax legislation could introduce different incentives for charitable giving. For example, the proposed Charitable Act aims to create a universal charitable deduction, which could encourage giving across all income levels. For an uplifting read that includes compelling points about the role of the nonprofit sector and the history of charitable giving, check out this letter that was issued late last year to congressional leaders urging them to enact a charitable deduction for taxpayers who do not itemize.

Of course, we'll keep you posted! In the meantime, please reach out to strategize about individual client situations. The team at the Chester County Community Foundation is here to help you structure charitable plans to empower clients to achieve their philanthropic goals, with or without a tax deduction.

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