

Report: New Charitable-Deduction Provisions in OBBBA Will Hurt More Than Help

03.26.26 | Linda J. Rosenthal, JD



There is an elegantly simple phrase – “the ‘Current Context’” – coined last year by the [Center for Effective Philanthropy](#) to convey that the Trump 2.0 Inauguration commenced an unsettling and chaotic new era for the charitable community in the United States.

The CEP folks insert “[Current Context](#)” in referring to “the series of events led by the U.S. federal government – including legislative actions, executive orders, and budget decisions – that went into effect in 2025 with the potential for wide-ranging effects on nonprofits’ funding and work.” See [A Sector in Crisis: How U.S. Nonprofits and Foundations Are Responding to Threats](#) (January 29, 2026) *Elie Buteau, Ph.D., et al, Center for Effective Philanthropy*.

It is an [intentional and long-planned](#) upheaval. The [Project 2025](#) fingerprints are all over it. There’s a heightened sense of alert, a lingering panic, as we are left to wonder: “What’s next? What new changes are on the agenda? Which policies, procedures, and norms will be tossed out of the window? Are there (artificially created) crises about to erupt? See: [Center for Effective Philanthropy Reports “A Sector in Crisis”](#) (February 6, 2026) and [Insufficient Help From Funders For Beleaguered Nonprofits. Why?](#) (February 11, 2026).

See also earlier posts: [The Charitable-Sector Pushback Against the Administration: One Year Post-Election](#) (November 12, 2025); [Administration Targets Charities Aggressively](#) (September 30, 2025); and [The Federal Offensive Against Nonprofits: Navigating Quicksand](#) (February 25, 2025).

A Full Menu of Trouble



There's certainly been no lull in the pile-on from the Oval Office.

In Monday's *Nonprofit Champion* (March 23, 226), the National Council of Nonprofits offered a peek at five of the current big items on the menu. (We'll take a brief dive into No. 4 in the final paragraphs here.)

- **“Join 700+ Nonprofits Nationwide Opposing Proposed Changes to Federal Grantees”:** There are draconian proposed changes to the System for Award Management (SAM), the online portal that nonprofits use to apply for federal funding. Applicants will have to certify “under penalty of criminal and civil law” that they will operate in alignment with President Trump’s executive order and the U.S. Department of Justice guidance that classify “diversity, equity, inclusion, and accessibility (DEIA)” as “illegal” and require cooperation with administration efforts on “undocumented immigration and terrorism.” NCN provides helpful background information and supporting materials. They ask readers to sign the still-open national letter and perhaps also submit written comments to the government on or before the rapidly approaching deadline of March 30th.
- **“New Executive Order on Fraud”:** On March 16, 2026, the president signed an executive order “Establishing The Task Force to Eliminate Fraud.” The EO “claims without evidence” that “illegal aliens, criminals, foreign gangs, bureaucrats, State and local officials, **non-governmental organizations**, and ineligible providers exploit federal safety net programs, resulting in widespread fraud, waste, and abuse.” The IRS will “soon launch investigations into the tax-exempt status of nonprofits involved in the alleged fraud.” (*emph. added*)
- **“Federal Government Launches Investigations into Nonprofits”:** The FBI and the IRS “are forming a new initiative to investigate nonprofits over suspected possible links to domestic terrorism. This effort follows a national security presidential memorandum [from September 25, 2025] directing the U.S. Department of Justice (DOJ) to “investigate, prosecute, and disrupt entities and individuals engaged in acts of political violence.” The president’s memorandum last fall directed the IRS to “take action to ensure no tax-exempt entities are directly or indirectly financing political violence or domestic terrorism.”
- **“Nonprofits Estimated to Lose \$5.7 Billion Annually in Charitable Donations”:** “A new report suggests that tax provisions signed into law in 2025 will reduce charitable giving to nonprofits by \$5.7 billion annually.... The overall decline in resources comes as many nonprofits struggle to maintain services and staff due to dramatic cuts in federal funding.”
- **“Department of Education Responds to Public Service Loan Forgiveness Lawsuit”:** NCN is lead plaintiff in *National Council of Nonprofits v. McMahon* which challenges the Department of Education’s final rule issued on October 31, 2025, “to unlawfully limit which charitable nonprofits qualify as eligible employers under PSLF.” The rule excludes those which don’t align with the administration’s “priorities or ideology.” The DOE recently filed a Motion to Dismiss. Plaintiff’s opposing brief is due by April 6, 2026.

A Dip in Donations Is Not Good News

The administration in Washington, D.C., is taking extraordinary and unprecedented steps to choke off the federal funding pipeline to 501(c)(3) organizations that do not advance or at least support the Project 2025/Trump worldview.



Of course, the very real threat of revoking tax exemptions, or of subjecting directors and officers to civil probes and possible criminal prosecutions – or both – will also wreak havoc on private philanthropy – if that is the government’s end-game. None of it makes sense, but there it is.

So with various existential dangers hanging over the charitable sector like a huge dark cloud, it’s all the more important to bolster rather than undermine federal policies and benefits that facilitate and encourage tax-deductible donations.

It’s especially critical since the demand for social services from the nation’s charitable nonprofits is running well above even the heightened levels seen during the COVID-19 pandemic.

Congress has experimented recently with temporary approval for the above-the-line charitable deductions for taxpayers who do not itemize deductions. It was successful and popular. Going into the 2025 budget-reconciliation negotiations late last spring, there was bipartisan support to make this option permanent.

Indeed, such a change happily made its way into the final – 1,000+ pages – bill signed into law on July 4, 2025: H.R.1, the One Big Beautiful Bill Act (OBBBA). And it’s commonly agreed that expanding the base of taxpayers eligible for charitable tax deductions will cause a jump in charitable giving.

That’s not the end of the story, though. It’s also generally understood – for complicated tax-nerd reasons – that tinkering around with certain other parts of the Internal Revenue Code related to charitable deductions – particularly concerning corporate giving – will have the opposite effect. It will discourage giving and reduce the annual donation totals calculated from all sources.

OBBBA: Tinkering Around Strategy

There were many advance warnings from tax and philanthropy experts ahead of the final OBBBA vote. See, for example: *One Big, Beautiful Bill Complicates Charitable Giving* (June 12, 2025) Robert McClelland & Elena Spatoulas Patel, Groundswell Impact Team, *taxpolicycenter.org*. The authors cautioned that “[s]prinkled throughout [... the proposed OBBBA...] are provisions that reshape how the tax code treats charitable giving. But rather than streamlining or strengthening charitable giving, the provisions add new layers of complexity. As a result, the bill risks reducing charitable giving....”

As signed into law on the Fourth of July, the massive budget-reconciliation package – known as the One Big Beautiful Bill Act – included the following adjustments set to take effect in 2026 that relate to charitable giving:

- Expanded deductions for non-itemizers, allowing up to \$1,000 (\$2,000 for joint filers)
- Added a new floor for itemizers, limiting deductions to cash contributions exceeding 0.5% of adjusted gross income (AGI).
- Added a 35% cap on charitable deduction benefits for high-income donors, down from 37%.
- Added a 1% minimum giving threshold for corporations, now required to contribute at least that share of taxable income to qualify for a deduction

The “New Report”



The “New Report” referred to in the fourth item in NCN’s *Nonprofit Champion* (March 23, 2026) – indicating that “tax provisions signed into law in 2025 will reduce charitable giving to nonprofits by \$5.7 billion annually” – is *The Philanthropy Outlook: Estimating Effects on Charitable Giving from the One Big Beautiful Bill*, (March 2026) [32 pp. PDF] Jon Bergdoll, MS; Patrick Rooney, PhD & Jacqueline Ackerman, MPA. *Lilly Family School of Philanthropy, Indiana University*.

“In the months since its passage, experts and commentators have focused primarily on the effects of the OBBB on the economy broadly (e.g., inflation and employment) and other areas of public policy. In contrast, relatively little attention has centered on how the OBBB might affect private philanthropy in the United States (U.S.), either in the short or long term. This study provides an initial effort to address this gap in research.”(Executive Summary).

Also, in the March 2026 Report, the Lilly Family School authors wrote: “[T]he data now confirm that the One Big Beautiful Bill Act (OBBBA) ‘will reduce annual U.S. charitable giving by roughly \$5.69 billion (about 1%). While a new universal deduction for non-itemizers might slightly increase donor participation, high-income and corporate donation caps are expected to drive a significant net decline in overall giving.’”

In additional follow-up analyses by various commentators, the Lilly Family School findings are discussed. See, for example: *Study Predicts Less Charitable Giving From More Donors Due to OBBB Tax Changes* (March 20, 2026) *Giving Compass*. The Lilly Report “... estimates how specific policy changes in the new law ... will affect both household and corporate giving, as well as the combined effects on giving. The research provides estimates of the anticipated shift in giving behavior resulting from each of the policy changes, holding everything else constant (e.g., income, wealth, GDP, the stock market, and other factors). It thus represents long-run annual effects of the policy changes, rather than predictions for any particular year.”

Conclusion

This unsatisfactory outcome – the projected \$5.7 drop in total charitable-contribution revenue – raises significant issues for the nation’s 501(c)(3) organizations going forward. It also has implications for sector-wide policy development.

— *Linda J. Rosenthal, J.D., FPLG Information & Research Director*