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Trump's Tax Act Impact on Estate and Charitable Planning

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Now that Congress has enacted the highly anticipated tax code changes sought by President Donald Trump in the "One Big Beautiful Bill Act," we thought it was a good time to share our thoughts on the primary impacts those changes will have on estate planning clients.

Ever since we learned that Trump would be our next president, it seemed a foregone conclusion that the 50% reduction in the federal estate tax exemption slated for the end of this year would not come to fruition. The conventional wisdom was right on point, and rather than have the current exemption of $13.99 million be reduced, it is instead scheduled to be increased to $15 million next

year. We now have clarity that will presumably hold through the remainder of Trump's term. However, even though there is no longer a "baked in" future reduction in the exemption as there has been since 2013, there is no way of knowing what a future Congress under the next administration will do.

With this change, we anticipate that there will be less focus on a "deadline" to lock in the current exemptions with SLATs and other gifting structures. That may change depending on the results of the next Presidential election. In our February article earlier this year, "Revisiting the Fundamentals of Estate Planning," we covered the many other focuses of estate planning beyond managing a federal estate tax burden, which, in past recent decades, with exemptions for many years between $600,000 and $1 million, was a key driving force behind engaging in an organized planning effort. With the higher exemption, federal estate tax planning is much less of a driving force even for many families who have accumulated sufficient resources (i.e., more than $30 million) where it can remain an area of impact.

A new change in the Trump's tax act is to give a 1/2% AGI haircut to the itemized deduction for charitable gifts starting next year. It's hard to imagine any particular policy reason for that change. Presumably, the change was simply a revenue raising opportunity to counterbalance the reduced revenue from other new tax provisions.

Under this new provision, for a taxpayer with $300,000 of AGI who made $10,000 of charitable gifts, the deduction would be limited to $8,500 [$10,000–(.005 x $300,000)]. There will also be a limitation on the tax benefit to the 35% graduated rate—this means that taxpayers in a higher bracket (currently only 37%) who make $100,000 of charitable gifts, would pay $2,000 more tax than under current law on account of this rule (on top of needing to factor in the 1/2% AGI haircut, which for a taxpayer with $1 million of AGI would be $5,000, and at the 37% tax rate would result in $1,850 of additional taxes).

Balancing out this reduced tax benefit for charitable giving is another new provision, effective in 2026, allowing taxpayers who do not itemize their deductions (i.e., who use the standard deduction), to each deduct $1,000 of charitable contributions (so, $2,000 for a married couple filing jointly).

The reduction to charitable giving tax benefits for itemizers does not seem to result in significantly increased tax burden. However, many taxpayers may nevertheless want to plan to manage the additional tax exposure in one way or another.

One recommended approach has been to "bunch" charitable contributions for multiple years in one year, to minimize the impact of the1/2% of AGI haircut issue. Once taxpayers with traditional IRAs have reach the age of 70.5, they have a budget of up to $108,000 in 2025 (and more in future

years due to inflation indexing) to make tax free gifts directly from their IRAs to charities. They can use such gifts to satisfy their required minimum distribution for the year of the gift. Since these gifts are from funds that would otherwise be subject to income tax when distributed, the effect is to have an end run around the new rules described above that would otherwise reduce the tax benefit of a charitable contribution.

For readers who are interested in making significant tax advantaged charitable gifts, please note that we covered a broad array of giving structures in our article titled “Charitable Giving Opportunities for the End of the Year” in December 2013. In that article we covered topics like charitable remainder trusts, charitable lead trusts, private foundations and donor advised funds. Each of those giving techniques can help manage a “bunching”objective related to 1/2% AGI haircut, while also maximizing the tax benefit of planned future gifts to charity in other ways as well. These techniques should be considered by taxpayers who are determined to make gifts over a multi-year period, and who also want to consider bunching those gifts in one year to help minimize the impact of the new .5% AGI floor.

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