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Contributing to this issue:

R. Craig Brubaker

2727 N Harwood, Suite 225

Dallas, TX 75201



Charitable Giving in 2026: The New 0.5% AGI Floor

Beginning with tax year 2026, the One Big Beautiful Bill Act (OBBBA) introduces a significant change to the charitable contribution deduction for individuals who itemize. Under new Code Section 170(b)(1)(I), charitable contributions are deductible only to the extent that the aggregate of such contributions exceeds 0.5% of the taxpayer's adjusted gross income (AGI). This represents a meaningful shift in how taxpayers approach charitable giving.

To illustrate the practical impact, consider an individual with \$500,000 in AGI. Under the new rules, the first \$2,500 of charitable contributions (0.5% of \$500,000) provides no tax benefit. Only contributions exceeding that threshold generate a deduction. For a taxpayer making \$10,000 in charitable gifts, only \$7,500 would be deductible. The existing percentage-of-AGI limitations based on the type of contribution and recipient organization continue to apply, layered on top of this new floor.

The legislation establishes a specific ordering rule for how the floor reduces various types of contributions. Capital gain property contributions to private foundations are reduced first, followed by capital gain property contributions to public charities, then other contributions to private foundations,

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qualified conservation easements, other contributions to public charities, and finally cash contributions to public charities. This ordering becomes particularly relevant for taxpayers making diverse types of charitable gifts.

Several planning strategies deserve consideration. First, “bunching” charitable contributions — aggregating multiple years of planned giving into a single year — can help ensure contributions meaningfully exceed the 0.5% floor while allowing taxpayers to use the standard deduction in other years. Donor-advised funds provide an effective mechanism for this approach, allowing donors to make a completed gift for tax purposes while spreading distributions to charities over subsequent years.

For taxpayers age 70½ and older, qualified charitable distributions (QCDs) from traditional IRAs remain an attractive option. QCDs are not subject to the new 0.5% floor since they are excluded from income rather than claimed as a deduction. The QCD limit for 2026 is \$108,000, providing substantial capacity for tax-efficient charitable giving outside the itemized deduction framework.

On a positive note, the OBBBA permanently extends the 60% of AGI limitation for cash contributions to public charities, which had been set to expire. Additionally, taxpayers who do not itemize may now claim a modest above-the-line deduction for charitable contributions — up to \$1,000 for single filers and \$2,000 for married couples filing jointly — though contributions to donor-advised funds do not qualify for this deduction.

SALT Deduction: Planning Under the New \$40,000 Cap

The state and local tax (SALT) deduction has been a point of significant discussion since the Tax Cuts and Jobs Act of 2017 imposed a \$10,000 cap on this itemized deduction. The OBBBA provides welcome relief for many taxpayers by increasing this cap substantially, though the new rules include complexity that warrants careful planning.

For tax years 2025 through 2029, the SALT deduction cap increases to \$40,000 (\$20,000 for married filing separately). The cap will increase by 1% annually through 2029, after which it reverts to the \$10,000 level in 2030. This five-year window creates both opportunities and planning imperatives for taxpayers in high-tax states.

However, the benefit of the increased cap phases out for higher-income taxpayers. For those with modified adjusted gross income (MAGI) between \$500,000 and approximately \$600,000 (\$1,000,000 to \$1,200,000 for joint filers), the \$40,000 cap is gradually reduced to \$10,000. This creates an effective marginal tax increase for taxpayers in the phase-out range, as additional income not only faces regular tax rates but also reduces the available SALT deduction.

For Texas residents, the SALT deduction primarily encompasses property taxes since Texas has no state income tax. With Texas property values and corresponding property tax bills having increased significantly in recent years, the higher cap may provide meaningful relief. A household paying \$35,000 in annual property taxes, for example, can now potentially deduct the full amount rather than being limited to \$10,000.

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Planning considerations include timing of property tax payments. Texas permits property owners to prepay property taxes, and in years where maximizing itemized deductions is advantageous, accelerating payment of the following year's property taxes into December can increase the current year's SALT deduction. This strategy works best when coordinated with other itemized deductions to ensure total itemized deductions exceed the standard deduction.

Taxpayers should also be aware that claiming larger SALT deductions may trigger alternative minimum tax (AMT) exposure, since state and local taxes are added back when calculating AMT liability. The OBBBA did modify AMT thresholds, but the interaction between increased SALT deductions and AMT calculations deserves attention in year-end planning discussions.

Trump Accounts: A New Savings Vehicle for Children

Among the more innovative provisions in the OBBBA is the creation of tax-advantaged savings accounts for children, officially named "Trump Accounts." These accounts, which will launch on July 4, 2026 — coinciding with the nation's 250th anniversary — introduce a new tool for building long-term wealth for the next generation.

The basic framework provides that any American child under age 18 with a Social Security number may have a Trump Account established on their behalf. Children born between January 1, 2025, and December 31, 2028, are eligible to receive a \$1,000 seed contribution from the U.S. Treasury. This government contribution does not count toward the annual contribution limit, providing an immediate head start for eligible families.

Parents and others may contribute up to \$5,000 annually (indexed for inflation beginning in 2027), though these contributions are not tax-deductible. The account assets must be invested in a diversified fund tracking a U.S. stock index. Earnings grow tax-deferred, similar to a traditional IRA, but contributions are made with after-tax dollars.

The accounts include an employer contribution feature as well. Employers may contribute up to \$2,500 annually to employees' children's Trump Accounts, and this amount is excludable from the employee's taxable income — a tax-free fringe benefit that employers can deduct as a business expense. This creates an interesting opportunity for family businesses and employers seeking additional compensation tools.

Importantly, all contributions to Trump Accounts are irrevocable gifts to the child. The child becomes the legal owner of the account and cannot access the funds until the calendar year in which they turn age 18. At that point, withdrawals are taxed as ordinary income (plus return of basis, tax-free) like traditional IRA distributions. Penalty-free withdrawals are permitted for higher education expenses, first-time home purchases, starting a business, disability, or certain hardship circumstances. Required minimum distributions apply based on the account owner's age, following traditional IRA rules.

For grandparents and parents already utilizing 529 plans, Trump Accounts present a complementary rather than competing vehicle. While 529 plans offer tax-free growth and withdrawals for qualified

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education expenses, Trump Accounts provide flexibility for non-education purposes and guaranteed access at age 18. The mandatory stock index investment and tax-deferred (rather than tax-free) treatment distinguish between the two vehicles.

In related news, Austin billionaires Michael and Susan Dell announced a \$6.25 billion commitment in early December 2025 to encourage families to establish Trump Accounts. The Dell Foundation will contribute \$250 to accounts for children under age 10 in ZIP codes with median family income of \$150,000 or less who are not eligible for the government's \$1,000 contribution. This represents one of the largest single charitable commitments ever made to American children and underscores the interest in this new savings vehicle.

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For further information, please contact your investment representative or one of our wealth planning specialists:

R. Craig Brubaker

214-855-2556

cbrubaker@view-cap.com

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