

One Big Beautiful Bill Act, H.R. 1 - 119th Congress (2025-2026): Part VI - Corporate Charitable Deductions / A Floor Has Been Added to Code Section 170(b)(2)(A)

07.29.25 03.10.26

In this sixth installment of my multi-part series on the One Big Beautiful Bill Act (the "Act"), I discuss a provision of the Act that impacts the deductibility of corporate charitable gifts under Code Section 170(b)(2)(A).^[1]

Background

The rules surrounding the deductibility of charitable contributions made by C corporations are straightforward. In general, corporations are allowed to deduct charitable contributions. The deduction, however, cannot exceed 10% of a corporation's taxable income for the taxable year, computed without regard to the charitable contribution (the "Ceiling"). Contributions in excess of the Ceiling may be carried forward for up to five years. Code Section 170(b)(2).

The rules sound simple enough. Unfortunately, the Act increases the complexity of the subject matter.

The Act

Section 70426 of the Act adds a new limitation to the deductibility of charitable contributions made by C corporations. In addition to the Ceiling, Code Section 170(b)(2)(A) has been added to the Code.

It creates a new wrinkle in the law. Effective for taxable years after 2025, otherwise allowable charitable contributions made by a C corporation for any taxable year (other than certain qualified conservation contributions) are allowed only to the extent that the aggregate of the contributions made during the taxable year exceeds 1% of the corporation's taxable income computed without regard to the charitable contributions (the "Floor").

The Floor and the Ceiling are applied in tandem. Accordingly, commencing in 2026, a C corporation is allowed a charitable contribution deduction only to the extent that its total charitable contributions for the taxable year exceed the Floor, but do not exceed the Ceiling.

The opportunity to carry forward (but not backward) unused charitable deductions due to the Floor and/or the Ceiling exists. The carry-forward rules are a bit complex.

1. Otherwise deductible charitable contributions made by C corporations in excess of the Ceiling may be carried forward for up to five years. They are allowed on a first-in, first-out basis. Additionally, any carry-forward amount is applied after taking into account contributions made during the then-current taxable year.
2. Otherwise deductible charitable contributions disallowed due to the Floor may also be carried forward for up to five years, but they may only be carried forward from taxable years in which the corporation's charitable contributions exceeded the Ceiling.

Section 70426 of the Act does at least two things to the basic rules:

1. It adds complexity.
2. It likely reduces the allowable charitable deduction for many corporations, especially those corporations that make aggregate contributions during the taxable year that are significant to the charitable recipients, but which constitute a low percentage of the corporation's taxable income.

The following examples illustrate how Code Section 170(b)(2)(A) works:

EXAMPLE 1: X is a C corporation. In 2026, it has taxable income of \$1M. During the taxable year, it makes aggregate charitable contributions of \$9,000. While the aggregate contributions for the taxable year do not exceed the Ceiling (10% of taxable income, or in this case \$100,000), they fail to exceed the Floor (1% of taxable income, or in this case \$10,000). Therefore, because X's aggregate charitable contributions for the taxable year do not exceed the Floor, no charitable deduction is allowed for 2026. Additionally, because the Ceiling was not exceeded, X cannot carry forward any of the disallowed charitable contributions.

EXAMPLE 2: Same facts as Example 1, but X's aggregate charitable contributions for the taxable year were \$120,000. The Floor reduces the contributions eligible for deduction to \$110,000 (\$120,000 - 1% of taxable income (\$10,000) = \$110,000). The Ceiling limits the deduction for the taxable year to \$100,000 (10% of taxable income). The amount exceeding the Ceiling, considering the Floor (\$10,000), may be carried forward for up to five years. Additionally, because the Ceiling was exceeded, the amount of the deduction lost due to the Floor (\$10,000) may be carried forward for up to five years. Accordingly, X may carry forward a total of \$20,000 for up to five years and use the remaining deduction in future years on a first-in, first-out basis (but only after taking into account contributions made during the then-current taxable year).

EXAMPLE 3: Same facts as Example 1, but the aggregate charitable contributions for the taxable year were \$90,000. The Floor is \$10,000 (1% of \$1M = \$10,000). The Ceiling is \$100,000 (10% of \$1M = \$100,000). Since the Ceiling is not exceeded, Corporation may deduct \$80,000 currently (\$90,000 - the Floor of \$10,000 = \$80,000). Because the Ceiling was not exceeded, however, none of the amount lost due to the Floor (\$10,000) may be carried forward. In the end, X made aggregate contributions of \$90,000, but because of the new change in the law, it can only deduct \$80,000. X forever loses \$10,000 of its charitable contribution from the 2026 taxable year.

Conclusion

The Joint Committee on Taxation estimates that Section 70426 of the Act will generate tax revenues of approximately \$16.6 billion over 10 years. Time will tell whether the Floor proves to be a disincentive for C corporations to make charitable contributions. One thing is certain, however, this new provision of the Code generates more than revenue-it adds complexity to the Code.

Stay tuned for more coverage of the One Big Beautiful Bill Act!

[\[1\]](#) All references to "the Code" are to the Internal Revenue Code of 1986, as amended.

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