PacificCPE

COURSE

31057C

Individual Income Tax: Deductions Part 2

Charitable giving and casualty losses are two areas where the rules can be nuanced and documentation requirements are strict. This course covers qualified organizations, deductible and nondeductible contributions, property donations, deduction limits, and recordkeeping best practices—including upcoming 2026 rule changes. It also addresses casualty and theft losses, how to figure and report them, and current limitations on nonbusiness losses. Essential reading for practitioners with clients who donate property or experience disaster-related losses.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the types of charitable contributions you can deduct and the records you should keep.
- Recall the tax treatment of personal casualty and theft losses.

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Chapter 1: CONTRIBUTIONS

Chapter Objective

After completing this chapter, you should be able to:

- Recall the types of charitable contributions you can deduct and the records you should keep.

I. INTRODUCTION

This chapter explains how to claim a deduction for your charitable contributions. It discusses:

- The types of organizations to which you can make deductible charitable contributions,
- The types of contributions you can deduct,
- How much you can deduct,
- What records to keep, and
- How to report your charitable contributions.

A charitable contribution is a donation or gift to, or for the use of, a qualified organization. It is voluntary and is made without getting, or expecting to get, anything of equal value.

Schedule A (Form 1040) required. To deduct a charitable contribution, you must itemize deductions on Schedule A (Form 1040). The amount of your deduction may be limited if certain rules and limits explained in this chapter apply to you.

Note: New Rules for 2026

The following rules related to charitable contributions will go into effect for tax year 2026. They do not impact 2025.

- **$1,000/$2,000 deduction for non-itemizers.** Taxpayers who take the standard deduction will be able to claim a deduction for cash contributions of up to $1,000 (individuals) or $2,000 (married couples filing jointly).
- **0.5% AGI floor for itemizers.** If you itemize, your charitable deduction will be reduced by an amount equal to 0.5% of your AGI. For example, if your AGI is $1 million, the first $5,000 of your annual charitable donations will not be deductible.
- **35% cap on deductions for top earners.** For taxpayers in the highest tax bracket (37%), the tax benefit of all itemized deductions, including charitable contributions, will be capped at 35%.
- **Changes to ordering of deductions.** AGI limits for charitable deductions will be calculated in a different order, which could affect the amount of your deductible contributions.

II. ORGANIZATIONS THAT QUALIFY TO RECEIVE DEDUCTIBLE CONTRIBUTIONS

You can deduct your contributions only if you make them to a qualified organization. Most organizations, other than churches and governments, must apply to the IRS to become a qualified organization.

TYPES OF QUALIFIED ORGANIZATIONS

Generally, only the following types of organizations can be qualified organizations.

1. Acommunity chest, corporation, trust, fund, or foundation organized or created in or under the laws of the United States, any state, the District of Columbia, or any possession of the United States (including Puerto Rico). It must, however, be organized and operated only for charitable, religious, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals. Certain organizations that foster national or international amateur sports competition also qualify.
2. War veterans' organizations, including posts, auxiliaries, trusts, or foundations, organized in the United States or any of its possessions (including Puerto Rico).

3. Domestic fraternal societies, orders, and associations operating under the lodge system.
4. Certain nonprofit cemetery companies or corporations.
5. The United States or any state, the District of Columbia, a U.S. possession (including Puerto Rico), a political subdivision of a state or U.S. possession, or an Indian tribal government or any of its subdivisions that perform substantial government functions.

Qualified organizations include:

- Churches, a convention or association of churches, temples, synagogues, mosques, and other religious organizations.
- Most nonprofit charitable organizations such as the American Red Cross and the United Way.
- Most nonprofit educational organizations, including the Boy Scouts of America, Girl Scouts of America, colleges, and museums. This also includes nonprofit daycare centers that provide childcare to the general public if substantially all the childcare is provided to enable parents and guardians to be gainfully employed. However, if your contribution is a substitute for tuition or other enrollment fee, it is not deductible as a charitable contribution, as explained later under Contributions You Cannot Deduct.
- Nonprofit hospitals and medical research organizations.
- Utility company emergency energy programs, if the utility company is an agent for a charitable organization that assists individuals with emergency energy needs.
- Nonprofit volunteer fire companies.
- Nonprofit organizations that develop and maintain public parks and recreation facilities.
- Civil defense organizations.

III. CONTRIBUTIONS YOU CAN DEDUCT

Generally, you can deduct your contributions of money or property that you make to, or for the use of, a qualified organization. A contribution is “for the use of” a qualified organization when it is held in a legally enforceable trust for the qualified organization or in a similar legal arrangement. The contributions must be made to a qualified organization and not set aside for use by a specific person.

If you give property to a qualified organization, you generally can deduct the fair market value of the property at the time of the contribution. See Contributions of Property, later in this chapter.

Your deduction for charitable contributions generally cannot be more than 60% of your adjusted gross income, but in some cases 20%, 30%, or 50% limits may apply.

Table 25-1 lists some examples of contributions you can deduct and some that you cannot deduct.

TABLE 25-1. EXAMPLES OF CHARITABLE CONTRIBUTIONS – A QUICK CHECK

Use the following lists for a quick check of contributions you can or cannot deduct. See the rest of this chapter for more information and additional rules and limits that may apply.

Deductible as Charitable Contributions	Not Deductible as Charitable Contributions
Money or property you give to: • Churches, synagogues, temples, mosques, and other religious organizations • Federal, state and local governments, if your contribution is solely for public purposes (for example, a gift to reduce the public debt or maintain a public park) • Nonprofit schools and hospitals • Salvation Army, American Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts of America, Girl Scouts of America, Boys and Girls Clubs of America, etc. • War veterans groups Expenses paid for a student living with you, sponsored by a qualified organization Out-of-pocket expenses when you serve a qualified organization as a volunteer	Money or property you give to: • Civic leagues, social and sports clubs, labor unions, and chambers of commerce • Foreign organizations (except certain Canadian, Israeli, and Mexican charities) • Groups that are run for personal profit • Groups whose purpose is to lobby for law changes • Homeowners' associations • Individuals • Political groups or candidates for public office Cost of raffle, bingo, or lottery tickets Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups Tuition Value of your time or services Value of blood given to a blood bank

CONTRIBUTIONS FROM WHICH YOU BENEFIT

If you receive a benefit as a result of making a contribution to a qualified organization, you can deduct only the amount of your contribution that is more than the value of the benefit you receive.

If you pay more than fair market value to a qualified organization for goods or services, the excess may be a charitable contribution. For the excess amount to qualify, you must pay it with the intent to make a charitable contribution.

Example 1

You pay $65 for a ticket to a dinner dance at a church. Your entire $65 payment goes to the church. The ticket to the dinner-dance has a fair market value of $25. When you buy your ticket, you know that its value is less than your payment. To figure the amount of your charitable contribution, you subtract the value of the benefit you receive ($25) from your total payment ($65). You can deduct $40 as a contribution to the church.

Example 2

At a fundraising auction conducted by a charity, you pay $600 for a week's stay at a beach house. The amount you pay is no more than the fair rental value. You have not made a deductible charitable contribution.

Charity benefit events. If you pay a qualified organization more than fair market value for the right to attend a charity ball, banquet, show, sporting event, or other benefit event, you can deduct only the amount that is more than the value of the privileges or other benefits you receive.

If there is an established charge for the event, that charge is the value of your benefit. If there is no established charge, the reasonable value of the right to attend the event is the value of your benefit. Whether you use the tickets or other privileges has no effect on the amount you can deduct. However, if you return the ticket to the qualified organization for resale, you can deduct the entire amount you paid for the ticket.

Example

Youpay$40 toseea special showingofamovie for the benefitofaquali fied organization. Printed on the ticket is "Contribution – $40." If the regular price for the movie is $8, your contribution is $32 ($40 payment - $8 regular price).

State or local tax credit or deduction. If you receive or expect to receive a state or local tax credit or a state or local tax deduction for a charitable contribution, then the amount treated as a charitable deduction may be reduced.

Membership fees or dues. You may be able to deduct membership fees or dues you pay to a qualified organization. However, you can deduct only the amount that is more than the value of the benefits you receive. You cannot deduct dues, fees, or assessments paid to country clubs and other social organizations. They are not qualified organizations.

Certain membership benefits can be disregarded. Both you and the organization can disregard the following membership benefits if you receive them in return for an annual payment of $75 or less:

1. Any rights or privileges that you can use frequently while you are a member, such as:
    a) Free or discounted admission to the organization's facilities or events,
    b) Free or discounted parking,
    c) Preferred access to goods or services, and
    d) Discounts on the purchase of goods and services.
2. Admission, while you are a member, to events that are open only to members of the organization, if the organization reasonably projects that the cost per person (excluding any allocated overhead) is not more than $13.60.

Token items. You do not have to reduce your contribution by the value of any benefit you receive if both of the following are true.

1. You receive only a small item or other benefit of token value.
2. The qualified organization correctly determines that the value of the item or benefit you received is not substantial and informs you that you can deduct your payment in full.

Written statement. A qualified organization must give you a written statement if you make a payment of more than $75 that is partly for goods or services. The statement must say that you can deduct only the amount of your payment that is more than the value of the goods or services you received. It must also give you a good faith estimate of the value of those goods or services.

The organization can give you the statement either when it solicits or when it receives the payment from you.