

Charitable Giving Basics and Cash Donation Rules

Donors want deductions, and nonprofits want to stay compliant—understanding the rules around charitable giving serves both goals. This course covers the foundational principles of charitable contribution deductions with a focused look at cash donations. You'll learn what qualifies, what documentation is required, and where the common pitfalls lie. Whether you advise individual donors or work directly with nonprofit organizations, this course builds the practical knowledge needed to handle cash donation issues accurately and confidently.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 9

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 9 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

- Identify which nonprofits are considered qualified organizations for IRS charitable contribution purposes.

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Chapter 1: CHARITABLE GIVING— THE BASICS AND CASH DONATIONS

Chapter Objective

After completing this chapter, you should be able to:

- Identify which nonprofits are considered qualified organizations for IRS charitable contribution purposes.

The words “your contribution is tax deductible” are music to a donor’s ears. While getting a tax deduction isn’t the sole motivation for most charitable donations, it is an important factor.

Whether a donation is deductible depends on whom it is given to, when, what for, and on the donor’s particular tax situation. An identical contribution might be deductible by one donor, but not another. In addition, the IRS imposes restrictive rules on donations, requiring documentation and tax filings by nonprofits and donors. In some cases, the rules limit the amount that can be deducted. All this has made the charitable fundraiser’s (and donor’s) life more difficult than it used to be.

This chapter covers the basic tax rules for charitable giving and cash contributions. Property contributions are covered in Chapter 1 of course 33805D.

Contributions, Donations, and Gifts

The words “contribution,” “donation,” or “gift” are typically used to refer to money or property received from a donor. These words mean essentially the same thing and are often used interchangeably. In the nonprofit world, however, people tend to use the word “donation” for small gifts—say an item of clothing—and reserve the word “contribution” for larger gifts, for example.

YOUR ROLE AS A NONPROFIT

Charitable deductions are claimed by donors on their individual tax returns, IRS Form 1040. It is up to the donor and the donor’s tax adviser—not the nonprofit that receives a donation—to determine how much to deduct, and when and how to deduct it. The nonprofit’s role in the charitable tax deduction process is fairly limited. Subject to some important exceptions, a nonprofit isn’t required to report donations to the IRS or make any tax filings when it receives a donation. The nonprofit’s

main responsibility is to make sure it complies with any substantiation and documentation requirements for the donations it receives.

Whether, and to what extent, a donation is tax deductible depends on a donor's particular tax situation. Donors, with the help of a tax adviser if necessary, must apply the general rules discussed in this chapter to their specific circumstances. Each donor's situation is unique and will affect how much that person can deduct or whether a donation is deductible at all. So, no matter what role you have at your nonprofit, you should *never give a donor specific legal or tax advice* on donations. You aren't the donor's lawyer or tax adviser.

This is also why blanket statements in fundraising solicitations such as “your contribution is tax deductible”—while technically accurate and perfectly legal—are often misleading. Instead, you should always tell donors to consult with their tax advisers to determine if a contribution is deductible. Never promise or assure a donor that it is.

That said, it is never in a nonprofit's interest to have a donor lose a valuable charitable deduction because the donor didn't understand the rules. Likewise, it is not good for a donor to make a contribution thinking it will be deductible when it isn't, or that it will save more in taxes than it really will. In either case, you'll end up with a disappointed or angry donor who might decide not to make any more contributions to your nonprofit.

Many donors are abysmally ignorant regarding the charitable deduction rules. Your nonprofit can help make sure that your donors understand the current IRS requirements for donations. Some nonprofits post this basic information on their websites, often in the form of an FAQ (a list of frequently asked questions). You can also refer donors to the IRS publication on the subject, IRS Publication 526, *Charitable Contributions*. It is available at the IRS website at www.irs.gov.

While everyone at your nonprofit doesn't need to become an expert on charitable contribution tax rules, it is helpful if some key people on your staff—particularly those involved in fundraising efforts—understand the basic charitable deduction rules. This might include your:

- Executive director
- Development director
- Board of directors
- Paid development staff
- Paid staff in nondevelopment roles
- Volunteers who help fundraise, and
- Outside consultants.

IRS rules make some types of donations easier or more advantageous taxwise than others. This ends up encouraging people to make certain types of donations while discouraging other types. Your fundraising strategies should always take into consideration the tax effect of a donation. You can use

fundraising letters, emails, and other communications to explain to potential donors the tax benefits of particular types of donations—for example, in your fundraising letter, you could advise donors of the potential tax benefits of donating publicly traded stock that has gone up in value since it was purchased. (See “Stock and Other Securities” in Chapter 1 of course 33805D.)

THRESHOLD REQUIREMENTS FOR DEDUCTING DONATIONS

As you probably know, tax deductions (sometimes called “tax write-offs”) are expenses or payments that taxpayers subtract from their total income to determine their taxable income—that is, the amount of their income that is subject to tax for the year. The more deductions a taxpayer has, the less income tax will be due. Deductions are allowed for many different types of expenses—some of the most common ones are mortgage interest, real estate taxes, medical expenses, and charitable contributions.

Example

Ben has an annual income of \$100,000. However, he doesn’t have to pay income tax on this entire amount. He qualifies for various tax deductions—mortgage interest, real estate taxes, medical expenses, and charitable contributions. Altogether these deductions amount to \$40,000. Ben subtracts this amount from his annual income to determine his taxable income—\$60,000. Thus, because of his many deductions, Ben only pays income tax on \$60,000 instead of \$100,000. This saves him \$9,600 in federal income taxes.

It’s easy to see why most taxpayers want as many deductions as possible. The more deductions a person has, the less money that person will owe to the IRS. The IRS allows deductions as an incentive to promote or reward certain behavior—in the case of charitable deductions, it’s to promote charitable giving. But strict rules are also attached to deductions that dictate who can take them and under what circumstances. With charitable donations, two threshold requirements must be met for any donation to be deductible.

The Donee Side—It Must Be a Qualified Organization

Only contributions to what the IRS calls “qualified organizations” are deductible. These consist mainly of public charities—organizations that come under Section 501(c)(3) of the Internal Revenue Code. These are the myriad of nonprofits that engage in charitable, religious, scientific, literary, or educational work. (See Chapter 1 of course 33801D for more on 501(c)(3)s and other nonprofits.) If your nonprofit has obtained a determination letter from the IRS recognizing its status as a 501(c)(3) public charity, then it is a qualified organization and donations to your organization are deductible. Many nonprofits include copies of their IRS determination letter on their website and their taxpayer identification number on fundraising solicitations so donors know that donations to their organization are deductible. The only 501(c)(3) organizations that are automatically considered

qualified organizations without a determination letter from the IRS are churches and other religious organizations.

While Your Application Is Pending with the IRS

To obtain IRS recognition as a 501(c)(3) organization, a nonprofit must file IRS Form 1023 or 1023-EZ. If all is in order, the IRS will send the nonprofit a determination letter stating that the organization meets the requirements to be classified as a 501(c)(3) tax-exempt organization. The IRS processes Form 1023-EZ quickly—an average of 14 days. However, the longer Form 1023 can take six months to be approved. While a nonprofit's Form 1023 or 1023-EZ is waiting for approval from the IRS, the organization may operate as a tax-exempt organization and accept donations.

Contributions made while an application is pending are deductible if the application is ultimately approved. However, donors have no assurance that their contributions are tax deductible until the nonprofit's application is approved. If the application is disallowed, the contributions wouldn't be deductible. Moreover, the nonprofit would be liable for filing federal income tax returns, unless its income is otherwise excluded from federal taxation.

If your nonprofit is in this situation, be honest with potential donors and inform them in fundraising solicitations that you have applied for IRS recognition as a 501(c)(3) organization and that contributions will be fully deductible if the IRS approves the application. Some donors might want to wait until the application is approved so they don't take any risk about the deductibility of their contributions.

Not All Tax-Exempt Organizations Are Qualified Organizations

Some organizations obtain their tax-exempt status from the IRS under a section of the Internal Revenue Code other than Section 501(c)(3). They are often organizations that do “good work” in the community but they aren't considered qualified organizations, so contributions to them aren't deductible. These non-501(c)(3) tax-exempt organizations include:

- Social welfare organizations
- Labor unions
- Civic leagues and associations
- Country clubs
- Social and sports clubs
- Lodges
- Chambers of commerce
- Political candidates and organizations
- For-profit schools and hospitals

- Homeowners' associations, and
- Most state bar associations.

As a general rule, fundraising solicitations on behalf of tax-exempt organizations that aren't qualified organizations are supposed to include an express statement disclosing that contributions to the organization aren't tax deductible. Examples of disclosure statements acceptable to the IRS include "Contributions or gifts to [name of organization] are not tax deductible," or "Contributions or gifts to [name of organization] are not tax deductible as charitable contributions."

A few other types of nonprofits don't obtain their tax-exempt status under Section 501(c)(3) but are still considered qualified organizations for IRS charitable contribution purposes. These are war veterans groups, volunteer fire departments, fraternal lodges that use all their net earnings for charitable purposes, and certain cemetery companies. Gifts to these organizations are tax deductible. In addition, gifts made for charitable purposes to a federal, state, or local government are also tax deductible. The documentation and substantiation rules for charitable contributions discussed here and in Chapter 1 of course 33805D apply to these organizations as well.

The IRS maintains a database of qualified organizations, which can be searched using the Tax Exempt Organizations Select Tool at: <https://apps.irs.gov/app/eos>. You can also call the IRS at 877-829-5500 to find out if an organization is qualified. Other organizations maintain even more extensive lists of nonprofits. For example, the website www.guidestar.org lists more than 1.8 million nonprofits. These are all valuable resources potential donors can check to see whether an organization they are making a donation to is a qualified organization.

Not all qualified organizations, however, are listed in the IRS database. Section 501(c)(3) nonprofits whose annual gross receipts are normally less than \$5,000 and religious organizations, such as churches and synagogues, don't have to apply to the IRS for tax-exempt status and are often not listed. If you are a small nonprofit or religious organization that isn't listed in the IRS database, you might consider applying for IRS tax-exempt status so you will be included in the IRS list of qualified organizations. Many small nonprofits do this to reassure potential donors that their organization is a recognized qualified organization and donations to them are tax deductible.

The Donor Side

Through 2025, only taxpayers who itemize their personal deductions on their tax returns are allowed to deduct their charitable contributions. This rule significantly limits the number of people who can take charitable deductions.

"Itemized deductions" are deductions taxpayers are allowed to take each year for certain personal expenses, such as mortgage interest, property taxes, state income taxes, certain medical expenses,

and charitable contributions. Taxpayers have the option to either itemize their deductions or take the standard deduction that the IRS sets each year. They should itemize only if their personal deductions exceed their standard deduction.

Because the standard deduction roughly doubled in 2018, only about 10% of all taxpayers itemize, and this number could decline further because the One Big Beautiful Bill Act increased the 2026 standard deduction to \$16,100 for singles and \$32,200 for marrieds filing jointly. Taxpayers over 65 get an even larger standard deduction of \$18,150 for singles and \$35,500 for marrieds filing jointly. So, through 2025, most taxpayers get no tax benefit from charitable contributions. Only higher-income taxpayers who have enough deductions to itemize get a tax benefit.

However, thanks to the One Big Beautiful Bill Act, a new rule goes into effect for 2026 and later. Taxpayers who don't itemize can deduct cash charitable contributions of \$1,000 per year if they are single or \$2,000 if they are married filing jointly. Contributions to donor-advised funds and private foundations aren't deductible under this rule. For tax nerds, this is a "below-the-line deduction," deducted from adjusted gross income (AGI) in arriving at taxable income.

Nonprofits have been asking Congress for a nonitemizer charitable deduction like this for years. It should encourage charitable donations from the 90% of Americans who don't itemize.

Unfortunately for nonprofits, the One Big Beautiful Bill Act also established a new rule for 2026 and later that will make it harder for taxpayers who itemize to deduct their charitable contributions. For those who itemize 2026 and later, charitable deductions are deductible only to the extent they exceed 0.5% of a taxpayer's adjusted gross income. For example, if your AGI is \$100,000 in 2026, and you donate \$10,000 to charity, you can deduct \$9,500 for 2026 if you itemize, with \$500 (0.5% of \$10,000) disallowed.

There has long been an annual limit on the total amount of charitable contributions taxpayers can deduct based on their AGI. The limit is 60% of AGI for cash donations to charity, 30% for donations of appreciated property, such as stocks held over one year, and 50% for noncash donations, including clothing. Excess contributions can be carried forward and deducted over five years. If a taxpayer exceeds one of these limits in 2026 or later, they can also carry forward the amount disallowed by the 0.5% floor for five years. For example, in the unlikely event that a taxpayer makes cash contributions equal to 60% or more of their AGI to charity in 2026 or later, they can carry forward the amount disallowed by the 0.5% floor for five years.

This is the first time there has ever been a floor on charitable deductions by itemizers. It could discourage contributions from higher-income taxpayers.

Both of these new rules go into effect in 2026, but they will likely have a big impact on donations for 2025. Itemizers should contribute as much as possible by December 31, 2025, before the new 0.5% floor goes into effect. Nonitemizers might want to hold off some or all their donations (at least up to

the \$1,000/\$2000 limit) until 2026, so they can take advantage of the new nonitemizer charitable deduction for that year.

Nonprofits should tailor their fundraising appeals with these new tax rules in mind. Going forward, consider placing an emphasis on getting contributions from smaller donors who can deduct their contributions (at least up to \$1,000/\$2,000) without itemizing. It behooves all nonprofits to make sure that all donors understand these new rules.

Charitable Contributions Don't Save Taxpayers Money

Never tell potential donors that a contribution will “save them money,” or “pay for itself” because it is deductible. This is simply not true, although many people mistakenly believe it. In reality, the tax savings from a deductible contribution is only a fraction of the total amount donated. The exact tax savings depends on the individual's top tax bracket. For example, if someone's top bracket is 24%, that person will save 24 cents in federal income taxes for every dollar that person donates to a nonprofit. The combined federal and state tax burden for most donors who itemize their deductions is about 30%. So, most donors save only 30 cents in income tax for each dollar donated.

The only time taxpayers save money by making charitable contributions is when they cheat by overvaluing gifts of property. The IRS is well aware of this temptation and imposes many special rules on valuing property donations to prevent such cheating.

If potential donors ask you how much a gift will save them in taxes, tell those donors to multiply the amount of the gift by their top tax rate (both federal and state if they have state income taxes).

When the Donor Is a Business

Businesses can make charitable contributions. And just like individuals, businesses like to get tax deductions because they reduce their taxable income. However, different rules apply for how these donations are deducted depending on what type of business entity is making the donation.

For all business entities other than C corporations, charitable contributions flow through the business to the individual business owners proportionately based on their ownership interest in the corporation. The individual business owners then claim their proportionate share of the deduction on their individual tax returns. All the rules that apply to individual donors claiming charitable deductions apply to these deductions. Tax deductions for C corporations work differently. Corporations are separate taxpaying entities that file their own tax returns, so the corporation claims the charitable deductions, not the individual shareholders. Starting in 2026, C corporations can deduct their charitable contributions only to the extent they exceed 1% of their taxable income. Only 10% of C corporation taxable income can be deducted each year. Amounts