



# Individual Income Tax: Deduction Part 2

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Course #3117D

Taxes

2 Credit Hours

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# INDIVIDUAL INCOME TAX: DEDUCTION PART 2

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This course covers some of the deductions used to figure taxable income. Deductions discussed here include: Contributions, nonbusiness casualty, and theft losses.

## LEARNING ASSIGNMENTS AND OBJECTIVES

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### SUBJECTS

#### Contributions

#### Nonbusiness Casualty and Theft Losses

Study the course materials from pages 1 to 51

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

#### 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.

## **NOTICE**

All references to IRS forms and line numbers throughout this course are based on prior year or draft forms available from the IRS in late 2022. There is a possibility some of these references will change.

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## EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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# CHAPTER 1: CONTRIBUTIONS

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## 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.

## 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. A community 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.

<b>Deductible as Charitable Contributions</b>	<b>Not Deductible as Charitable Contributions</b>
<p>Money or property you give to:</p> <ul style="list-style-type: none"> <li>• Churches, synagogues, temples, mosques, and other religious organizations</li> <li>• 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)</li> <li>• Nonprofit schools and hospitals</li> <li>• 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.</li> <li>• War veterans groups</li> </ul> <p>Expenses paid for a student living with you, sponsored by a qualified organization</p> <p>Out-of-pocket expenses when you serve a qualified organization as a volunteer</p>	<p>Money or property you give to:</p> <ul style="list-style-type: none"> <li>• Civic leagues, social and sports clubs, labor unions, and chambers of commerce</li> <li>• Foreign organizations (except certain Canadian, Israeli, and Mexican charities)</li> <li>• Groups that are run for personal profit</li> <li>• Groups whose purpose is to lobby for law changes</li> <li>• Homeowners' associations</li> <li>• Individuals</li> <li>• Political groups or candidates for public office</li> </ul> <p>Cost of raffle, bingo, or lottery tickets</p> <p>Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups</p> <p>Tuition</p> <p>Value of your time or services</p> <p>Value of blood given to a blood bank</p>

## **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.