Table of Contents

Chapter 1: Standard Deduction
I. Important Changes
II. Introduction
III. Standard Deduction Amount
IV. Standard Deduction For Dependents

Chapter 2: Medical And Dental Expenses
I. Important
II. Introduction
III. What are medical expenses?
IV. What expenses can be included this year?
V. How Much Of The Expenses Can Be Deducted?
VI. Whose Medical Expenses Can Be Included?
VII. What Medical Expenses Are Includible?
VIII. How To Treat Reimbursements
IX. Damages For Personal Injuries
X. How To Figure And Report Deductions On A Tax Return
XI. Impairment-Related Work Expenses (Business Or Medical)
XII. Health Insurance Costs For Self-Employed Persons

Chapter 3: Taxes
I. Important
II. Introduction
III. Tests To Deduct Any Tax
IV. Income Taxes
V. General Sales Taxes
VI. Real Estate Taxes
VII. Personal Property Taxes
VIII. Taxes And Fees That Cannot Be Deducted
IX. Where To Deduct

Chapter 4: Contributions
I. Introduction
II. Organizations That Qualify To Receive Deductible Contributions
III. Contributions You Can Deduct.................................................................................................................. 25
IV. Contributions You Cannot Deduct............................................................................................................ 29
V. Contributions Of Property .......................................................................................................................... 31
VI. When To Deduct .......................................................................................................................................... 34
VII. Limits On Deductions ................................................................................................................................. 35
VIII. Records To Keep ........................................................................................................................................ 36
IX. How To Report ............................................................................................................................................ 40
FINAL EXAM ..................................................................................................................................................... 42

NOTICE
This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.
Chapter 1: Standard Deduction

Chapter Objective
After completing this chapter, you should be able to:

- Recall the standard deduction amounts for the current year.

I. Important Changes

Increase in standard deduction. The standard deduction for some taxpayers who do not itemize deductions on Schedule A of Form 1040 is higher for some taxpayers in 2016 than it was in 2015. The amount depends on your filing status. In addition to the annual increase due to inflation adjustments, the 2016 standard deduction is increased to:

- Single or married separate – $6,300
- Married joint or qualifying widow(er) – $12,600
- Head of household – $9,300

II. Introduction

This chapter discusses:

- How to figure the amount of your standard deduction, and
- The standard deduction for dependents.

Most taxpayers have a choice of either taking a standard deduction or itemizing their deductions. If you have a choice, you can use the method that gives you the lower tax. The standard deduction is a dollar amount that reduces the amount of income on which you are taxed.

III. Standard Deduction Amount

The standard deduction amount depends on your filing status, whether you are 65 or older or blind, and whether another taxpayer can claim an exemption for you. Generally, the standard deduction amounts are adjusted each year for inflation.

**Decedent’s final return.** The amount of the standard deduction for a decedent’s final return is the same as it would have been had the decedent continued to live. However, if the decedent was not 65 or older at the time of death, the higher standard deduction for age cannot be claimed.

**Higher Standard Deduction for Age (65 or Older)**
If you are age 65 or older on the last day of the year and do not itemize deductions, you are entitled to a higher standard deduction. You are considered 65 on the day before your 65th birthday. Therefore, you can take a higher standard deduction for 2016 if you were born before January 2, 1952.

**Higher Standard Deduction for Blindness**
If you are blind on the last day of the year and you do not itemize deductions, you are entitled to a higher standard deduction. **Not totally blind.** If you are not totally blind, you must get a certified statement from an eye doctor (ophthalmologist or optometrist) that:

1. You cannot see better than 20/200 in the better eye with glasses or contact lenses, or
2. Your field of vision is not more than 20 degrees.

If your eye condition is not likely to improve beyond these limits, the statement should include this fact. Keep the statement in your records.
If your vision can be corrected beyond these limits only by contact lenses that you can wear only briefly because of pain, infection, or ulcers, you can take the higher standard deduction for blindness if you otherwise qualify.

**SPOUSE 65 OR OLDER OR BLIND**
You can take the higher standard deduction if your spouse is age 65 or older or blind and:

1. You file a joint return, or
2. You file a separate return and can claim an exemption for your spouse because your spouse had no gross income and cannot be claimed as a dependent by another taxpayer.

**Caution!** You cannot claim the higher standard deduction for an individual other than yourself and your spouse.

**IV. Standard Deduction For Dependents**

The standard deduction for an individual for whom an exemption can be claimed on another person’s tax return is generally limited to the greater of:

1. $1,050, or
2. The individual’s earned income for the year plus $350 (but not more than the regular standard deduction amount, generally $6,300).

However, the standard deduction may be higher if the individual is 65 or older or blind.

**Earned income defined.** Earned income is salaries, wages, tips, professional fees, and other amounts received as pay for work you actually perform.

For purposes of the standard deduction, earned income also includes any part of a taxable scholarship or fellowship grant.

**CHAPTER 1: TEST YOUR KNOWLEDGE**

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CE credit.

We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1. **What is the standard deduction for an individual for whom an exemption can be claimed on another person’s tax return generally limited to:**
   A. $1,050
   B. the individual’s earned income for the year plus $350, but not more than the regular standard deduction amount
   C. the lesser of A and B above
   D. the greater of A and B above

**CHAPTER 1: SOLUTION AND SUGGESTED RESPONSES**

Below is the solution and suggested responses for the question on the previous page. If you choose an incorrect answer, you should review the page(s) as indicated for the question to ensure comprehension of the material.

1.
   A. Incorrect. The limit can be greater than $1,050.
   B. Incorrect. The limit can be greater than the individual’s earned income plus $350.
C. Incorrect. The limit can be greater than the lower of these amounts.

D. **CORRECT.** However, the standard deduction may be higher if the individual is 65 or older or blind.
Chapter 2: Medical And Dental Expenses

Chapter Objective
After completing this chapter, you should be able to:

• Recognize the deductibility characteristics of medical and dental expenses.

I. Important

Medical expense floor. In 2016, the floor for deducting medical expenses as an itemized deduction is 10% of adjusted gross income (AGI) if you and your spouse are under age 65 at the end of the year. If either you or your spouse are age 65 or older, expenses exceeding 7.5% of AGI may be claimed.

Standard mileage rate. The standard mileage rate allowed for operating expenses for a car when you use it for medical reasons is 19.0 cents per mile for 2016.

Health coverage tax credit. The health coverage tax credit (HCTC) is available for eligible individual health insurance plan premiums. For 2016 and later years, the HCTC does not apply to coverage purchased through the Marketplace.

II. Introduction

This chapter will help you determine:

• What medical expenses are,
• What expenses you can include this year,
• How much of the expenses you can deduct,
• Whose medical expenses you can include,
• What medical expenses are includible,
• How you treat reimbursements,
• How to report the deduction on your tax return,
• How to report impairment-related work expenses, and
• How to report health insurance costs if you are self-employed.

III. What are medical expenses?

Medical expenses are the costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and the cost for treatments affecting any part or function of the body. These expenses include payments for legal medical services rendered by physicians, surgeons, dentists, and other medical practitioners. They include the costs of equipment, supplies, and diagnostic devices needed for these purposes.

IV. What expenses can be included this year?

You can include only the medical and dental expenses you paid this year, regardless of when the services were provided. If you pay medical expenses by check, the day you mail or deliver the check generally is the date of payment. If you use a “pay-by-phone” or “online” account to pay your medical expenses, the date reported on the statement of the financial institution showing when payment was made is the date of payment. You can include medical expenses you charge to your credit card in the year the charge is made, not when you actually pay the amount charged.

V. How Much Of The Expenses Can Be Deducted?
Generally, you can deduct on Schedule A (Form 1040) only the amount of your medical and dental expenses that is more than 10% of your adjusted gross income (AGI), found on Form 1040, line 38 (7.5% of your AGI if either you or your spouse was born before January 2, 1952).

**Example:** You are unmarried and under age 65 and your adjusted gross income is $40,000, 10% of which is $4,000. You paid medical expenses of $2,500. You cannot deduct any of your medical expenses because they are not more than 10% of your adjusted gross income.

**VI. Whose Medical Expenses Can Be Included?**

You can generally include medical expenses you pay for yourself, as well as those you pay for someone who was your spouse or your dependent either when the services were provided or when you paid for them. There are different rules for decedents and for individuals who are the subject of multiple support agreements.

**Spouse.** You can include medical expenses you paid for your spouse. To include these expenses, you must have been married either at the time your spouse received the medical services or at the time you paid the medical expenses.

**Example 1:**
Mary received medical treatment before she married Bill. Bill paid for the treatment after they married. Bill can include these expenses in figuring his medical expense deduction even if Bill and Mary file separate returns.

If Mary had paid the expenses before she and Bill married, Bill could not include Mary’s expenses in his separate return. Mary would include the amounts she paid during the year in her separate return. If they filed a joint return, the medical expenses both paid during the year would be used to figure their medical expense deduction.

**Example 2:**
This year, John paid medical expenses for his wife, Louise, who died last year. John married Belle this year, and they file a joint return. Because John was married to Louise when she received the medical services, he can include those expenses in figuring his medical expense deduction for this year.

**Dependent.** You can include medical expenses you paid for your dependent. To claim these expenses, the person must have been your dependent either at the time the medical services were provided or at the time you paid the expenses. A person generally qualifies as your dependent for purposes of the medical expense deduction if both of the following requirements are met:

1. The person was a qualifying child or a qualifying relative, and
2. The person was a U.S. citizen or national, or a resident of the United States, Canada, or Mexico.

You can include medical expenses you paid for an individual that would have been your dependent except that:

1. He or she received gross income of $4,050 or more in 2016,
2. He or she filed a joint return for 2016, or
3. You, or your spouse if filing jointly, could be claimed as a dependent on someone else’s 2016 return.

**Support claimed under a multiple support agreement.** A multiple support agreement is used when two or more people provide more than half of a person’s support, but no one alone provides more than half. If you are considered to have provided more than half of a qualifying relative’s support under a multiple support agreement, you can include medical expenses you pay for that person.

Any medical expenses paid by others who joined you in the agreement cannot be included as medical expenses by anyone. However, you can include the entire unreimbursed amount you paid for medical expenses.
**Example:** You and your three brothers each provide one-fourth of your mother’s total support. Under a multiple support agreement, you claim your mother as a dependent. You paid all of her medical expenses. Your brothers repaid you for three-fourths of these expenses. In figuring your medical expense deduction, you can include only one-fourth of your mother’s medical expenses. Your brothers cannot include any part of the expenses. However, if you and your brothers share the nonmedical support items and you separately pay all of your mother’s medical expenses, you can include the amount you paid for her medical expenses in your medical expenses.

**VII. What Medical Expenses Are Includible?**

Use Table 2-1 in this chapter as a guide to determine which medical and dental expenses you can include on Schedule A (Form 1040). This table does not include all possible medical expenses. To determine if an expense not listed can be included in figuring your medical expenses, see What Are Medical Expenses, earlier.

**TABLE 2-1. MEDICAL AND DENTAL EXPENSES CHECKLIST**

<table>
<thead>
<tr>
<th>You can include:</th>
<th>You cannot include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Bandages</td>
<td>• Baby sitting and childcare</td>
</tr>
<tr>
<td>• Birth control pills prescribed by your doctor</td>
<td>• Bottled water</td>
</tr>
<tr>
<td>• Body scan</td>
<td>• Contributions to Archer MSAs (see Publication 969)</td>
</tr>
<tr>
<td>• Braille books</td>
<td>• Diaper service</td>
</tr>
<tr>
<td>• Breast pump and supplies</td>
<td>• Expenses for your general health (even if following your doctor’s advice) such as</td>
</tr>
<tr>
<td>• Capital expenses for equipment or improvements to your home needed for medical</td>
<td>• Health club dues</td>
</tr>
<tr>
<td></td>
<td>care (see the worksheet in Publication 502)</td>
</tr>
<tr>
<td>• Diagnostic devices</td>
<td>• Social activities, such as dancing or swimming lessons</td>
</tr>
<tr>
<td>• Expenses of an organ donor</td>
<td>• Trip for general health improvement</td>
</tr>
<tr>
<td>• Eye surgery - to promote the correct function of the eye</td>
<td>• Flexible spending account reimbursements for medical expenses (if contributions were on a pre-tax basis)</td>
</tr>
<tr>
<td>• Fertility enhancement, certain procedures</td>
<td>• Funeral, burial, or cremation expenses</td>
</tr>
<tr>
<td>• Guide dogs or other animals aiding the blind, deaf, and disabled</td>
<td>• Health savings account payments for medical expenses</td>
</tr>
<tr>
<td>• Hospital services fees (lab work, therapy, nursing services, surgery, etc.)</td>
<td>• Operation, treatment, or medicine that is illegal under federal or state law</td>
</tr>
<tr>
<td>• Lead-based paint removal</td>
<td>• Life insurance or income protection policies, or policies providing payment for loss of life, limb, sight, etc.</td>
</tr>
<tr>
<td>• Legal abortion</td>
<td>• Maternity clothes</td>
</tr>
<tr>
<td>• Legal operation to prevent having children such as a vasectomy or tubal ligation</td>
<td>• Medical insurance included in a car insurance policy covering all persons injured in or by your car</td>
</tr>
<tr>
<td>• Long-term care contracts, qualified</td>
<td>• Medicine you buy without a prescription</td>
</tr>
<tr>
<td>• Meals and lodging provided by a hospital during medical treatment</td>
<td>• Nursing care for a healthy baby</td>
</tr>
<tr>
<td>• Medical services fees (from doctors, dentists, surgeons, specialists, and other medical practitioners)</td>
<td>• Prescription drugs you brought in (or ordered shipped) from another country, in most cases</td>
</tr>
<tr>
<td>• Medicare Part D premiums</td>
<td>• Nutritional supplements, vitamins, herbal supplements, “natural medicines,” etc., unless recommended by a medical practitioner as a</td>
</tr>
<tr>
<td>• Nursing services</td>
<td></td>
</tr>
<tr>
<td>• Medical and hospital insurance premiums</td>
<td></td>
</tr>
<tr>
<td>• Oxygen equipment and oxygen</td>
<td></td>
</tr>
<tr>
<td>• Part of life-care fee paid to retirement home designated for medical care</td>
<td></td>
</tr>
<tr>
<td>• Physical examination</td>
<td></td>
</tr>
<tr>
<td>• Pregnancy test kit</td>
<td></td>
</tr>
</tbody>
</table>
• Prescription medicines (prescribed by a doctor) and insulin
• Psychiatric and psychological treatment
• Social security tax, Medicare tax, FUTA, and state employment tax for worker providing medical care (see Wages for nursing services, below)
• Special items (artificial limbs, false teeth, eyeglasses, contact lenses, hearing aids, crutches, wheelchair, etc.)
• Special education for mentally or physically disabled persons
• Stop-smoking programs
• Transportation for needed medical care
• Treatment at a drug or alcohol center (includes meals and lodging provided by the center)
• Wages for nursing services
• Weight-loss, certain expenses for obesity
treatment for a specific medical condition diagnosed by a physician
• Surgery for purely cosmetic reasons
• Toothpaste, toiletries, cosmetics, etc.
• Teeth whitening
• Weight-loss expenses not for the treatment of obesity or other disease

INSURANCE PREMIUMS
You can include in medical expenses insurance premiums you pay for policies that cover medical care. Medical care policies can provide payment for treatment that includes:

• Hospitalization, surgical fees, X-rays,
• Prescription drugs and insulin,
• Dental care,
• Replacement of lost or damaged contact lenses, and
• Long-term care (subject to additional limitations).

If you have a policy that provides payments for other than medical care, you can include the premiums for the medical care part of the policy if the charge for the medical part is reasonable. The cost of the medical part must be separately stated in the insurance contract or given to you in a separate statement.

Premium tax credit. When figuring the amount of insurance premiums you can deduct on Schedule A, don’t include the amount of net premium tax credit you are claiming on Form 1040.

Tip: If advance payments of the premium tax credit were made, or you think you may be eligible to claim a premium tax credit, fill out Form 8962 before filling out Schedule A.

Long-term care services. Contributions made by your employer to provide coverage for qualified long-term care services under a flexible spending or similar arrangement must be included in your income. This amount will be reported as wages on your Form W-2.

Health reimbursement arrangement (HRA). If you have medical expenses that are reimbursed by a health reimbursement arrangement, you cannot include those expenses in your medical expenses. This is because an HRA is funded solely by the employer.

Medicare A. If you are covered under social security (or if you are a government employee who paid Medicare tax), you are enrolled in Medicare A. The payroll tax paid for Medicare A is not a medical expense. If you are not covered under social security (or were not a government employee who paid Medicare tax), you can voluntarily enroll in Medicare A. In this situation the premiums paid for Medicare A can be included as a medical expense on your tax return.

Medicare B. Medicare B is a supplemental medical insurance. Premiums you pay for Medicare B are a medical expense. Check the information you received from the Social Security Administration to find out your premium.

Medicare D. Medicare D is a voluntary prescription drug insurance program for persons with Medicare A or B. You can include as a medical expense premiums you pay for Medicare D.
MEALS AND LODGING
You can include in medical expenses the cost of meals and lodging at a hospital or similar institution if a principal reason for being there is to get medical care.

TRANSPORTATION
Include in medical expenses amounts paid for transportation primarily for, and essential to, medical care. You Can Include:

- Bus, taxi, train, or plane fares, or ambulance service,
- Transportation expenses of a parent who must go with a child who needs medical care,
- Transportation expenses of a nurse or other person who can give injections, medications, or other treatment required by a patient who is traveling to get medical care and is unable to travel alone, and
- Transportation expenses for regular visits to see a mentally ill dependent, if these visits are recommended as a part of treatment.

Car expenses. You can include out-of-pocket expenses for your car, such as gas and oil, when you use your car for medical reasons. You cannot include depreciation, insurance, general repair, or maintenance expenses.
If you do not want to use your actual expenses for 2016, you can use the standard medical mileage rate of 19.0 cents per mile.
You can also include the cost of parking fees and tolls. You can add these fees and tolls to your medical expenses whether you use actual expenses or use the standard mileage rate.

DISABLED DEPENDENT CARE EXPENSES
Some disabled dependent care expenses may qualify as either medical expenses or as work-related expenses for purposes of taking a credit for dependent care. You can choose to apply them either way as long as you do not use the same expenses to claim both a credit and a medical expense deduction.

VIII. How To Treat Reimbursements
You can deduct as medical expenses only those amounts paid during the taxable year for which you received no insurance or other reimbursement.

INSURANCE REIMBURSEMENT
You must reduce your total medical expenses for the year by all reimbursements for medical expenses that you receive from insurance or other sources during the year. This includes payments from Medicare.
Even if a policy provides reimbursement for only certain specific medical expenses, you must use amounts you receive from that policy to reduce your total medical expenses, including those it does not reimburse.

Health reimbursement arrangement (HRA). A health reimbursement arrangement is an employer-funded plan that reimburses employees for medical care expenses and allows unused amounts to be carried forward. An HRA is funded solely by the employer and the reimbursements for medical expenses, up to a maximum dollar amount for a coverage period, are not included in your income.

Premiums paid by you. If you pay either the entire premium for your medical insurance or all of the costs of a plan similar to medical insurance and your insurance payments or other reimbursements are more than your total medical expenses for the year, you have an excess reimbursement. You generally do not include an excess reimbursement in your gross income.

Medical expenses not deducted. If you did not deduct a medical expense in the year you paid it because your medical expenses were not more than 10% of your adjusted gross income (7.5% of your AGI if either you or your spouse was born before January 2, 1952), or because you did not itemize deductions, do not include the reimbursement up to the amount of the expense in income.
IX. Damages For Personal Injuries

If you receive an amount in settlement of a personal injury suit, part of that award may be for medical expenses that you deducted in an earlier year. If it is, you must include that part in your income in the year you receive it to the extent it reduced your taxable income in the earlier year.

**Future medical expenses.** If you receive an amount in settlement of a damage suit for personal injuries, part of that award may be for future medical expenses. If it is, you must reduce any future medical expenses for these injuries until the amount you received has been completely used.

**FIGURE 2-A. IS YOUR EXCESS MEDICAL REIMBURSEMENT TAXABLE?**

![Diagram showing the decision process for determining if medical reimbursement is taxable.]

*See Premiums paid by you and your employer in this chapter.*

X. How To Figure And Report Deductions On A Tax Return

Once you have determined which medical care expenses you can include when figuring your deduction, you must report the deduction on your tax return.

**WHAT TAX FORM DO YOU USE?**

You figure your medical expense deduction on Schedule A, Form 1040. You cannot claim medical expenses on Form 1040A or Form 1040EZ.

XI. Impairment-Related Work Expenses (Business Or Medical)

If you are a person with a disability, you can take a business deduction for expenses that are necessary for you to be able to work. If you take a business deduction for these impairment-related work expenses, they are not subject to the 10% limit (or 7.5% if either you or your spouse was born before January 2, 1952) that applies to medical expenses.

You have a disability if you have:

- A physical or mental disability (for example, blindness or deafness) that functionally limits your being employed, or
• A physical or mental impairment (for example, a sight or hearing impairment) that substantially limits one or more of your major life activities, such as performing manual tasks, walking, speaking, breathing, learning, or working.

**Impairment-related expenses defined.** Impairment-related expenses are those ordinary and necessary business expenses that are:

- Necessary for you to do your work satisfactorily,
- For goods or services not required or used, other than incidentally, in your personal activities, and
- Not specifically covered under other income tax laws.

**XII. Health Insurance Costs For Self-Employed Persons**

If you were self-employed and had a net profit for the year, you may be able to deduct, as an adjustment to income, amounts paid for medical and qualified long-term care insurance on behalf of yourself, your spouse, your dependents, and your children who were under age 27 at the end of 2016.

For this purpose, you were self-employed if you were a general partner (or a limited partner receiving guaranteed payments) or you received wages from an S corporation in which you were more than a 2% shareholder.

The insurance plan must be established under your trade or business, and the deduction cannot be more than your earned income from that trade or business.

You cannot take this deduction for medical insurance for any month in which you were eligible to participate in a health plan subsidized by your employer, your spouse’s employer, or an employer of your dependent child or your child under age 27 at the end of 2016. You cannot deduct payments for a qualified long-term care insurance contract for any month in which you were eligible to participate in a long-term care insurance plan subsidized by your employer or your spouse’s employer.

If you qualify to take the deduction, use the Self-Employed Health Insurance Deduction Worksheet in the Form 1040 instructions to figure the amount you can deduct. But if any of the following applies, do not use the worksheet. Instead, use the worksheet in Publication 535, Business Expenses, to figure your deduction.

- You had more than one source of income subject to self-employment tax.
- You file Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion.
- You are using amounts paid for qualified long-term care insurance to figure the deduction.

Use Publication 974 instead of the worksheet in the Form 1040 instructions if you, your spouse, or a dependent enrolled in health insurance through the Health Insurance Marketplace and you are claiming the premium tax credit.

**CHAPTER 2: TEST YOUR KNOWLEDGE**

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. In 2016, if your AGI is $60,000 and you are under 65 years old, you are able to deduct medical expenses you paid that are more than what amount:

   A. $3,000
   B. $3,750
   C. $4,500
   D. $6,000
2. Payments that can be included as a medical and dental expense deduction exclude which of the following:

A. medical and hospital insurance premiums
B. long-term care contracts
C. stop-smoking programs
D. health club dues

CHAPTER 2: SOLUTIONS AND SUGGESTED RESPONSES
Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1. Incorrect. You are only able to deduct medical expenses that you incurred that are more than 10% of your AGI. 10% of $60,000 is greater than $3,000; therefore, you would not be able to deduct any of your medical expenses. If your AGI was $30,000, you would be able to deduct any medical expenses paid during the year that were more than $3,000.

B. Incorrect. You are only able to deduct medical expenses that are more than 10% of your AGI. 10% of $60,000 is greater than $3,750; therefore, you would not be able to deduct any of your medical expenses.

C. Incorrect. Since you are under 65 years old, you are only able to deduct medical expenses that are more than 10% of your AGI. 10% of $60,000 is more than $4,500; therefore, you would not be able to deduct any medical expenses. If you were age 65 or older, you would be able to deduct medical expenses greater than $4,500.

D. CORRECT. If your AGI is $60,000, you are able to deduct any medical expenses paid that are more than $6,000. This is because you are only allowed to deduct medical expenses that are more than 10% of your AGI ($6,000 is 10% of $60,000).

2. Incorrect. Payments made for medical and hospital insurance premiums are deductible expenses.

B. Incorrect. Payments made for long-term care contracts are deductible as medical expenses in the year that the payment was made.

C. Incorrect. Expenditures for stop-smoking programs are deductible medical expenses.

D. CORRECT. Health club dues are generally not deductible medical expenses because they do not meet the test for such expenses. Specifically, medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness.
Chapter 3: Taxes

Chapter Objective
After completing this chapter, you should be able to:

• Recognize what taxes you can deduct if you itemize deductions.

I. Important

Additional Medicare taxes. In 2016, higher-income taxpayers may be subject to one or both of the newer additional Medicare taxes. The 0.9% Additional Medicare Tax applies on Form 8959 to wages, other employee compensation, and net self-employment earnings exceeding $250,000 if married filing jointly, $125,000 if married filing separately, or $200,000 (all other filing statuses). An employer will withhold the 0.9% tax on earnings over $200,000 that are paid to an employee during the year. The 3.8% tax on net investment applies on Form 8960 to taxpayers with net investment income if modified adjusted gross income exceeds $250,000 if married filing jointly or qualifying widow/widower, $125,000 if married filing separately, or $200,000 if single or head of household. If MAGI exceeds the threshold, the 3.8% tax applies to the lesser of the excess MAGI or the net investment income.

II. Introduction

This chapter discusses which taxes you can deduct if you itemize deductions on Schedule A (Form 1040). It also explains which taxes you can deduct on other schedules or forms and which taxes you cannot deduct. This chapter covers:

• Income taxes (federal, state, local, and foreign),
• General sales taxes (state and local),
• Real estate taxes (state, local, and foreign),
• Personal property taxes (state and local), and
• Taxes and fees you cannot deduct.

Use Table 3-1 as a guide to determine which taxes you can deduct. At the end of the chapter is a section that explains which form you use to deduct the different types of taxes.

Business taxes. You can deduct certain taxes only if they are ordinary and necessary expenses of your trade or business or of producing income.

State or local taxes. These are taxes imposed by the 50 states, U.S. possessions, or any of their political subdivisions (such as a county or city), or by the District of Columbia.

Indian tribal government. An Indian tribal government that is recognized by the Secretary of the Treasury as performing substantial government functions will be treated as a state for purposes of claiming a deduction for taxes. Income taxes, real estate taxes, and personal property taxes imposed by that Indian tribal government (or by any of its subdivisions that are treated as political subdivisions of a state) are deductible.

General sales taxes. These are taxes imposed at one rate on retail sales of a broad range of classes of items.

Foreign taxes. These are taxes imposed by a foreign country or any of its political subdivisions.

III. Tests To Deduct Any Tax

The following two tests must be met for any tax to be deductible by you.

1. The tax must be imposed on you.
2. The tax must be paid during your tax year.

**The tax must be imposed on you.** Generally, you can deduct only taxes that are imposed on you. Generally, you can deduct property taxes only if you are the owner of the property. If your spouse owns property and pays real estate taxes on it, the taxes are deductible on your spouse’s separate return or on your joint return.

**The tax must be paid during your tax year.** If you are a cash basis taxpayer, you can deduct only those taxes actually paid during your tax year. If you pay your taxes by check, the day you mail or deliver the check is generally the date of payment. If you use a pay-by-phone account (such as a credit card or electronic funds withdrawal), the date reported on the statement of the financial institution showing when payment was made is the date of payment. If you contest a tax liability and are a cash basis taxpayer, you can deduct the tax only in the year you actually pay it (or transfer money or other property to provide for satisfaction of the contested liability).

### TABLE 3-1. WHICH TAXES CAN YOU DEDUCT?

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>You Can Deduct</th>
<th>You Cannot Deduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees and Charges</td>
<td>Fees and charges that are expenses of your trade or business or of producing income.</td>
<td>Fees and charges that are not expenses of your trade or business or of producing income, such as fees for driver’s licenses, car inspections, parking, or charges for water bills. Fines and penalties.</td>
</tr>
<tr>
<td>General Sales Taxes</td>
<td>State and local general sales taxes, including compensating use taxes.</td>
<td>State and local income taxes (if you choose to deduct state and local general sales taxes).</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>State and local income taxes. Foreign income taxes. Employee contributions to state funds listed under Contributions to state benefit funds.</td>
<td>Federal income taxes. Employee contributions to private or voluntary disability plans. State and local general sales taxes if you choose to deduct state and local income taxes.</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>Taxes that are expenses of your trade or business.</td>
<td>Federal excise taxes, such as tax on gasoline, that are not expenses of your trade or business or of producing income. Per capita taxes.</td>
</tr>
<tr>
<td></td>
<td>Taxes on property producing rent or royalty income.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Occupational taxes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>One-half of self-employment tax paid.</td>
<td></td>
</tr>
<tr>
<td>Personal Property Taxes</td>
<td>State and local personal property taxes.</td>
<td>Customs duties that are not expenses of your trade or business or of producing income</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>State and local real estate taxes. Foreign real estate taxes Tenant’s share of real estate taxes paid by cooperative housing corporation.</td>
<td>Real estate taxes that are treated as imposed on someone else (see Division of real estate taxes between buyers and sellers). Taxes for local benefits (with exceptions). Trash and garbage pick up fees (with exceptions). Rent increase due to higher real estate taxes. Homeowners’ association charges.</td>
</tr>
</tbody>
</table>

### IV. Income Taxes

This section discusses the deductibility of state and local income taxes (including employee contributions to state benefit funds) and foreign income taxes.

**STATE AND LOCAL INCOME TAXES**
You can deduct state and local income taxes. However, you can elect to deduct state and local general sales taxes instead of state and local income taxes in 2016.

The PATH Act made this optional deduction permanent.

**Exception:** You cannot deduct state and local income taxes you pay on income that is exempt from federal income tax, unless the exempt income is interest income. For example, you cannot deduct the part of a state’s income tax that is on a cost-of-living allowance that is exempt from federal income tax.

**What to Deduct**

Your deduction may be for withheld taxes, estimated tax payments, or other tax payments as follows.

**Withheld taxes.** You can deduct state and local income taxes withheld from your salary in the year they are withheld. Your Form(s) W-2 will show these amounts. Forms W-2G, 1099-G, 1099-R, and 1099-MISC may also show state and local income taxes withheld.

**Estimated tax payments.** You can deduct estimated tax payments you made during the year under a pay-as-you-go plan of a state or local government. However, you must have a reasonable basis for making the estimated tax payments. Any estimated state or local tax payments that are not made in good faith at the time of payment are not deductible.

**Example:** You made an estimated state income tax payment. However, the estimate of your state tax liability shows that you will get a refund of the full amount of your estimated payment. You had no reasonable basis to believe you had any additional liability for state income taxes and you cannot deduct the estimated tax payment.

**Refund applied to taxes.** You can deduct any part of a refund of prior-year state or local income taxes that you chose to have credited to your 2016 estimated state or local income taxes. Do not reduce your deduction by either of the following items.

- Any state or local income tax refund (or credit) you expect to receive for 2016.
- Any refund of (or credit for) prior-year state and local income taxes you actually received in 2016. However, part or all of this refund (or credit) may be taxable.

**Separate federal returns.** If you and your spouse file separate state, local, and federal income tax returns, you each can deduct on your federal return only the amount of your own state and local income tax that you paid during the tax year.

**Joint state and local returns.** If you and your spouse file joint state and local returns and separate federal returns, each of you can deduct on your separate federal return part of the state and local income taxes paid during the tax year. You can deduct only the amount of the total taxes that is proportionate to your gross income compared to the combined gross income of you and your spouse. However, you cannot deduct more than the amount you actually paid during the year. You can avoid this calculation if you and your spouse are jointly and individually liable for the full amount of the state and local income taxes. If so, you and your spouse can deduct on your separate federal returns the amount you each actually paid.

**Joint federal return.** If you file a joint federal return, you can deduct the total of the state and local income taxes both of you paid.

**Contributions to state benefit funds.** As an employee, you can deduct mandatory contributions to state benefit funds withheld from your wages that provide protection against loss of wages. Mandatory payments made to the following state benefit funds are deductible as state income taxes on Schedule A (Form 1040), line 5.

- Alaska Unemployment Compensation Fund.
- California Nonoccupational Disability Benefit Fund.
- New Jersey Nonoccupational Disability Benefit Fund.
- New Jersey Unemployment Compensation Fund.
- New York Nonoccupational Disability Benefit Fund.
• Pennsylvania Unemployment Compensation Fund.
• Rhode Island Temporary Disability Benefit Fund.
• Washington State Supplemental Workmen’s Compensation Fund.

FOREIGN INCOME TAXES
Generally, you take either a deduction or a credit for income taxes imposed on you by a foreign country or a U.S. possession. However, you cannot take a deduction or credit for foreign income taxes paid on income that is exempt from U.S. tax under the foreign earned income exclusion or the foreign housing exclusion.

V. General Sales Taxes
For 2016, you can elect to deduct state and local general sales taxes instead of state and local income taxes, as an itemized deduction on Schedule A (Form 1040), line 5. Generally, you can use either your actual expenses or the state and local sales tax tables to figure your sales tax deduction.

The PATH Act made this optional deduction permanent.

Actual expenses. Generally, you can deduct the actual state and local general sales taxes (including compensating use taxes) if the tax rate was the same as the general sales tax rate. However, sales taxes on food, clothing, medical supplies, and motor vehicles are deductible as a general sales tax even if the tax rate was less than the general sales tax rate. If you paid sales tax on a motor vehicle at a rate higher than the general sales tax rate, you can deduct only the amount of tax that you would have paid at the general sales tax rate on that vehicle. If you use the actual expenses method, you must have receipts to show the general sales taxes paid. Do not include sales taxes paid on items in your trade or business.

Optional sales tax tables. Instead of using your actual expenses, you can figure your state and local general sales tax deduction using the state and local sales tax tables in the Instructions for Schedule A (Form 1040). You may also be able to add the state and local general sales taxes paid on certain specified items.

Your applicable table amount is based on the state where you live, your income, and the number of exemptions claimed on your tax return. Your income is your adjusted gross income plus any nontaxable items such as the following.

• Tax-exempt interest.
• Veterans’ benefits.
• Nontaxable combat pay.
• Workers’ compensation.
• Nontaxable part of social security and railroad retirement benefits.
• Nontaxable part of IRA, pension, or annuity distributions, excluding rollovers.
• Public assistance payments.

If you lived in different states during the same tax year, you must prorate your applicable table amount for each state based on the days you lived in each state. See the instructions for Schedule A (Form 1040) for details.

VI. Real Estate Taxes
Deductible real estate taxes are any state, local, or foreign taxes on real property levied for the general public welfare. You can deduct these taxes only if they are assessed uniformly against all property under the jurisdiction of the taxing authority. The proceeds must be for general community or governmental purposes and not be payment for a special privilege granted or service rendered to you.
Deductible real estate taxes generally do not include taxes charged for local benefits and improvements that increase the value of the property. They also do not include itemized charges for services (such as trash collection) against specific property or certain people, even if the charge is paid to the taxing authority. For more information about taxes and charges that are not deductible, see Real Estate-Related Items You Cannot Deduct, later.

Tenant-shareholders in a cooperative housing corporation. Generally, if you are a tenant-stockholder in a cooperative housing corporation, you can deduct the amount paid to the corporation that represents your share of the real estate taxes the corporation paid or incurred for your dwelling unit. The corporation should provide you with a statement showing your share of the taxes.

Division of real estate taxes between buyers and sellers. If you bought or sold real estate during the year, the real estate taxes must be divided between the buyer and the seller. The buyer and the seller must divide the real estate taxes according to the number of days in the real property tax year (the period to which the tax imposed relates) that each owned the property. The seller is treated as paying the taxes up to, but not including, the date of sale. The buyer is treated as paying the taxes beginning with the date of sale. This applies regardless of the lien dates under local law. Generally, this information is included on the settlement statement provided at the closing.

If you (the seller) cannot deduct taxes until they are paid because you use the cash method of accounting, and the buyer of your property is personally liable for the tax, you are considered to have paid your part of the tax at the time of the sale. This lets you deduct the part of the tax to the date of sale even though you did not actually pay it. However, you must also include the amount of that tax in the selling price of the property. The buyer must include the same amount in his or her cost of the property.

Worksheet 22-1. Figuring Your Real Estate Tax Deduction

You figure your deduction for taxes on each property bought or sold during the real property tax year as follows:

1. Enter the total real estate taxes for the real property tax year
2. Enter the number of days in the real property tax year that you owned the property...
3. Divide line 2 by 365 (for leap years, divide line 2 by 366)
4. Multiple line 1 by line 3. This is your deduction. Enter it on line 6 of Schedule A (Form 1040)

Note: Repeat steps 1 through 4 for each property you bought or sold during the real property tax year. Your total deduction is the sum of the line 4 amounts for all of the properties.

Real estate taxes for prior years. Do not divide delinquent taxes between the buyer and seller if the taxes are for any real property tax year before the one in which the property is sold. Even if the buyer agrees to pay the delinquent taxes, the buyer cannot deduct them. The buyer must add them to the cost of the property. The seller can deduct these taxes paid by the buyer. However, the seller must include them in the selling price.

Examples. The following examples illustrate how real estate taxes are divided between buyer and seller.

Example 1:
Dennis and Beth White’s real property tax year for both their old home and their new home is the calendar year, with payment due August 1. The tax on their old home, sold on May 7, was $620. The tax on their new home, bought on May 3, was $732. Dennis and Beth are considered to have paid a proportionate share of the real estate taxes on the old home even though they did not actually pay them to the taxing authority. On the other hand, they can claim only a proportionate share of the taxes they paid on their new property even though they paid the entire amount.

Dennis and Beth owned their old home during the real property tax year for 126 days (January 1 to May 6, the day before the sale). They figure their deduction for taxes on their old home as follows.
Taxes on Old Home
1. Enter the total real estate taxes for the real property tax year $620
2. Enter the number of days in the real property tax year that you owned the property... 126
3. Divide line 2 by 365 (for leap years, divide line 2 by 366) .3452
4. Multiple line 1 by line 3. This is your deduction. Enter it on line 6 of Schedule A (Form 1040) $214

Since the buyers of their old home paid all of the taxes, Dennis and Beth also include the $214 in the selling price of the old home. (The buyers add the $214 to their cost of the home.) Dennis and Beth owned their new home during the real property tax year for 243 days (May 3 to December 31, including their date of purchase). They figure their deduction for taxes on their new home as follows:

Taxes on New Home
1. Enter the total real estate taxes for the real property tax year $732
2. Enter the number of days in the real property tax year that you owned the property... 243
3. Divide line 2 by 365 (for leap years, divide line 2 by 366) .6658
4. Multiple line 1 by line 3. This is your deduction. Enter it on line 6 of Schedule A (Form 1040) $487

Since Dennis and Beth paid all of the taxes on the new home, they add $245 ($732 paid less $487 deduction) to their cost of the new home. (The sellers add this $245 to their selling price and deduct the $245 as a real estate tax.) Dennis and Beth’s real estate tax deduction for their old and new homes is the sum of $214 and $487, or $701. They will enter this amount on line 6 of Schedule A (Form 1040).

Example 2:
George and Helen Brown bought a new home on May 3, 2016. Their real property tax year for the new home is the calendar year. Real estate taxes for 2015 were assessed in their state on January 1, 2016. The taxes became due on May 31, 2016 and October 31, 2016.
The Browns agreed to pay all taxes due after the date of purchase. Real estate taxes for 2015 were $680. They paid $340 on May 31, 2016, and $340 on October 31, 2016. These taxes were for the 2015 real property tax year. The Browns cannot deduct them since they did not own the property until 2016. Instead, they must add $680 to the cost of their new home.
In January 2017, the Browns receive their 2016 property tax statement for $752, which they will pay in 2017. The Browns owned their new home during the 2016 real property tax year for 243 days (May 3 to December 31). They will figure their 2017 deduction for taxes as follows.

1. Enter the total real estate taxes for the real property tax year $752
2. Enter the number of days in the real property tax year that you owned the property... 243
3. Divide line 2 by 365 (for leap years, divide line 2 by 366) .6658
4. Multiple line 1 by line 3. This is your deduction. Enter it on line 6 of Schedule A (Form 1040) $501

The remaining $251 ($752 paid less $501 deduction) of taxes paid in 2017, along with the $680 paid in 2016, is added to the cost of their new home.
Because the taxes up to the date of sale are considered paid by the seller on the date of sale, the seller is entitled to a 2016 tax deduction of $931. This is the sum of the $680 for 2015 and the $251 for the 122 days the seller owned the home in 2016. The seller must also include the $931 in the selling price when he or she figures the gain or loss on the sale. The seller should contact the Browns in January 2017 to find out how much real estate tax is due for 2016.
**Form 1099-S.** For certain sales or exchanges of real estate, the person responsible for closing the sale (generally the settlement agent) prepares Form 1099-S, Proceeds From Real Estate Transactions, to report certain information to the IRS and to the seller of the property. Box 2 of the form is for the gross proceeds of the sale and should include the portion of the seller’s real estate tax liability that the buyer will pay after the date of sale. The buyer includes these taxes in the cost basis of the property, and the seller both deducts this amount as a tax paid and includes it in the sales price of the property.

For a real estate transaction that involves a home, any real estate tax the seller paid in advance but that is the liability of the buyer appears in box 5 of Form 1099-S. The buyer deducts this amount as a real estate tax, and the seller reduces his or her real estate tax deduction (or includes it in income) by the same amount. See Refund (or rebate), later.

**Taxes placed in escrow.** If your monthly mortgage payment includes an amount placed in escrow (put in the care of a third party) for real estate taxes, you may not be able to deduct the total amount placed in escrow. You can deduct only the real estate tax that the third party actually paid to the taxing authority. If the third party does not notify you of the amount of real estate tax that was paid for you, contact the third party or the taxing authority to find the proper amount to show on your return.

**Tenants by the entirety.** If you and your spouse held property as tenants by the entirety and you file separate returns, each of you can deduct only the taxes each of you paid on the property.

**Divorced individuals.** If your divorce or separation agreement states that you must pay the real estate taxes for a home owned by you and your spouse, part of your payments may be deductible as alimony and part as real estate taxes.

**Minister’s and military personnel housing allowances.** If you are a minister or a member of the uniformed services and receive a housing allowance that you can exclude from income, you still can deduct all of the real estate taxes you pay on your home.

**Refund (or rebate).** If you receive a refund or rebate in 2016 of real estate taxes you paid in 2016, you must reduce your deduction by the amount refunded to you. If you receive a refund or rebate in 2016 of real estate taxes you deducted in an earlier year, you generally must include the refund or rebate in income in the year you receive it. However, you only need to include the amount of the deduction that reduced your tax in the earlier year.

**REAL ESTATE-RELATED ITEMS YOU CANNOT DEDUCT**
Payments for the following items generally are not deductible as real estate taxes.

- Taxes for local benefits.
- Itemized charges for services (such as trash and garbage pickup fees).
- Transfer taxes (or stamp taxes).
- Rent increases due to higher real estate taxes.
- Homeowners’ association charges.

**Taxes for local benefits.** Deductible real estate taxes generally do not include taxes charged for local benefits and improvements that increase the value of your property. These include assessments for streets, sidewalks, water mains, sewer lines, public parking facilities, and similar improvements. You should increase the basis of your property by the amount of the assessment. Local benefit taxes are deductible only if they are for maintenance, repair, or interest charges related to those benefits. If only a part of the taxes is for maintenance, repair, or interest, you must be able to show the amount of that part to claim the deduction. If you cannot determine what part of the tax is for maintenance, repair, or interest, none of it is deductible.

Taxes for local benefits may be included in your real estate tax bill. If your taxing authority (or mortgage lender) does not furnish you a copy of your real estate tax bill, ask for it. You should use the rules above to determine if the local benefit tax is deductible.

**Itemized charges for services.** An itemized charge for services assessed against specific property or certain people is not a tax, even if the charge is paid to the taxing authority. For example, you cannot deduct the charge as a real estate tax if it is:
• A unit fee for the delivery of a service (such as a $5 fee charged for every 1,000 gallons of water you use),

• A periodic charge for a residential service (such as a $20 per month or $240 annual fee charged to each homeowner for trash collection), or

• A flat fee charged for a single service provided by your government (such as a $30 charge for mowing your lawn because it was allowed to grow higher than permitted under your local ordinance).

**Caution!** You must look at your real estate tax bill to determine if any nondeductible itemized charges, such as those listed above, are included in the bill. If your taxing authority (or mortgage lender) does not furnish you a copy of your real estate tax bill, ask for it.

**Exception:** Service charges used to maintain or improve services (such as trash collection or police and fire protection) are deductible as real estate taxes if:

- The fees or charges are imposed at a like rate against all property in the taxing jurisdiction,
- The funds collected are not earmarked; instead, they are commingled with general revenue funds, and
- Funds used to maintain or improve services are not limited to or determined by the amount of these fees or charges collected.

**Transfer taxes (or stamp taxes).** Transfer taxes and similar taxes and charges on the sale of a personal home are not deductible. If they are paid by the seller, they are expenses of the sale and reduce the amount realized on the sale. If paid by the buyer, they are included in the cost basis of the property.

**Rent increase due to higher real estate taxes.** If your landlord increases your rent in the form of a tax surcharge because of increased real estate taxes, you cannot deduct the increase as taxes.

**Homeowners’ association charges.** These charges are not deductible because they are imposed by the homeowners’ association, rather than the state or local government.

### VII. Personal Property Taxes

Personal property tax is deductible if it is a state or local tax that is:

1. Charged on personal property,
2. Based only on the value of the personal property, and
3. Charged on a yearly basis, even if it is collected more than once a year, or less than once a year.

A tax that meets the above requirements can be considered charged on personal property even if it is for the exercise of a privilege. For example, a yearly tax based on value qualifies as a personal property tax even if it is called a registration fee and is for the privilege of registering motor vehicles or using them on the highways.

If the tax is partly based on value and partly based on other criteria, it may qualify in part.

**Example:** Your state charges a yearly motor vehicle registration tax of 1% of value plus 50 cents per hundredweight. You paid $32 based on the value ($1,500) and weight (3,400 lbs.) of your car. You can deduct $15 (1% × $1,500) as a personal property tax, since it is based on the value. The remaining $17 ($0.50 × 34), based on the weight, is not deductible.

### VIII. Taxes And Fees That Cannot Be Deducted

Many federal, state, and local government taxes are not deductible because they do not fall within the categories discussed earlier. Other taxes and fees, such as federal income taxes, are not deductible because the tax law specifically prohibits a deduction for them.
Taxes and fees that are generally not deductible include the following items.

- **Employment taxes.** This includes social security, Medicare, and railroad retirement taxes withheld from your pay. However, you can take a deduction for the deductible part of self-employment tax. In addition, the social security and other employment taxes you pay on the wages of a household worker may be included in medical expenses that you can deduct or child care expenses that allow you to claim the child and dependent care credit.

- **Estate, inheritance, legacy, or succession taxes.** However, you can deduct the estate tax attributable to income in respect of a decedent if you, as a beneficiary, must include that income in your gross income. In that case, deduct the estate tax as a miscellaneous deduction that is not subject to the 2%-of-adjusted-gross-income limit.

- **Federal income taxes.** This includes taxes withheld from your pay.

- **Fines and penalties.** You cannot deduct fines and penalties paid to a government for violation of any law, including related amounts forfeited as collateral deposits.

- **Gift taxes.**

- **License fees.** You cannot deduct license fees for personal purposes (such as marriage, driver’s, and dog license fees).

- **Per capita taxes.** You cannot deduct state or local per capita taxes.

- **State and local general sales taxes.**

Many taxes and fees other than those listed above are also nondeductible, unless they are ordinary and necessary expenses of a business or income producing activity. For other nondeductible items, see Real Estate-Related Items You Cannot Deduct, earlier.

**IX. Where To Deduct**

You deduct taxes on the following schedules.

- **State and local income taxes.** These taxes are deducted on line 5 of Schedule A (Form 1040), even if your only source of income is from business, rents, or royalties. Check box a on line 5.

- **Foreign income taxes.** Generally, income taxes you pay to a foreign country or U.S. possession can be claimed as an itemized deduction on line 8 of Schedule A (Form 1040), or as a credit against your U.S. income tax on line 48 of Form 1040. To claim the credit, you may have to complete and attach Form 1116.

- **Real estate taxes and personal property taxes.** These taxes are deducted on lines 6 and 7 of Schedule A (Form 1040), unless they are paid on property used in your business, in which case they are deducted on Schedule C, Schedule C-EZ, or Schedule F (Form 1040). Taxes on property that produces rent or royalty income are deducted on Schedule E (Form 1040).

- **Self-employment tax.** Deduct one-half of the self-employment tax on Form 1040.

- **Other taxes.** All other deductible taxes are deducted on line 8 of Schedule A (Form 1040).

**CHAPTER 3: TEST YOUR KNOWLEDGE**

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

**1. Which of the following income taxes are not deductible:**

   A. federal income taxes
   
   B. state income taxes
   
   C. local income taxes
D. foreign income taxes

2. Which of the following taxes are generally not deductible:
   A. federal excise taxes
   B. taxes that are expenses of your trade or business
   C. occupational taxes
   D. taxes on property producing rental income

3. Deductible real estate taxes generally do not include taxes charged for local benefits and improvements that increase the value of your property.
   A. true
   B. false

CHAPTER 3: SOLUTIONS AND SUGGESTED RESPONSES
Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1. A. **CORRECT**. Federal income taxes paid are not deductible on federal personal income tax returns – Form 1040.
   B. Incorrect. State income taxes, among other types of taxes and fees, are deductible for federal income tax purposes.
   C. Incorrect. Local income taxes can be deducted.
   D. Incorrect. Foreign income taxes are generally deductible on a U.S. Form 1040 return. This deduction assumes that foreign income taxes were paid on income that is not already exempt from U.S. tax under the foreign earned income exclusion or the foreign housing exclusion.

2. A. **CORRECT**. These would include taxes such as on gasoline that are not expenses of your trade or business or of producing income.
   B. Incorrect. Taxes that are expenses of your trade or business are deductible.
   C. Incorrect. Occupational taxes are deductible as a miscellaneous deduction subject to the 2% limit.
   D. Incorrect. Taxes incurred on property that produces rent or royalty income is deductible.

3. A. **CORRECT**. These include assessments for streets, sidewalks, water mains, sewer lines, public parking facilities, and similar improvements. You should increase the basis of your property by the amount of the assessment.
   B. Incorrect. Local benefit taxes are deductible only if they are for maintenance, repair, or interest charges related to those benefits.
I. Introduction

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

- Organizations that are qualified to receive 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.

**Form 1040 required.** To deduct a charitable contribution, you must file Form 1040 and itemize deductions on Schedule A. 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 five 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 intentional 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 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 gift or 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.

Your deduction for charitable contributions is generally limited to 50% of your adjusted gross income, but in some cases 20% and 30% limits may apply.

In addition, the total of your charitable contributions deduction and certain other itemized deductions may be limited.

Table 4-1 lists some examples of contributions you can deduct and some that you cannot deduct.

TABLE 4-1. 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.

<table>
<thead>
<tr>
<th>Deductible As Charitable Contributions</th>
<th>Not Deductible As Charitable Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money or property you give to:</td>
<td>Money or property you give to:</td>
</tr>
<tr>
<td>• Churches, synagogues, temples, mosques, and other religious organizations</td>
<td>• Civic leagues, social and sports clubs, labor unions, and chambers of commerce</td>
</tr>
<tr>
<td>• 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)</td>
<td>• Foreign organizations (except certain Canadian, Israeli, and Mexican charities)</td>
</tr>
<tr>
<td>• Nonprofit schools and hospitals</td>
<td>• Groups that are run for personal profit</td>
</tr>
<tr>
<td>• 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.</td>
<td>• Groups whose purpose is to lobby for law changes</td>
</tr>
<tr>
<td>• War veterans groups</td>
<td>• Homeowners’ associations</td>
</tr>
<tr>
<td>Expenses paid for a student living with you, sponsored by a qualified organization</td>
<td>• Individuals</td>
</tr>
<tr>
<td>Out-of-pocket expenses when you serve a qualified organization as a volunteer</td>
<td>• Political groups or candidates for public office</td>
</tr>
<tr>
<td></td>
<td>Cost of raffle, bingo, or lottery ticket</td>
</tr>
<tr>
<td></td>
<td>Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups</td>
</tr>
<tr>
<td></td>
<td>Tuition</td>
</tr>
<tr>
<td></td>
<td>Value of your time or services</td>
</tr>
<tr>
<td></td>
<td>Value of blood given to a blood bank</td>
</tr>
</tbody>
</table>
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 fund-raising 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.

Athletic events. If you make a payment to, or for the benefit of, a college or university and, as a result, you receive the right to buy tickets to an athletic event in the athletic stadium of the college or university, you can deduct 80% of the payment as a charitable contribution.

If any part of your payment is for tickets (rather than the right to buy tickets), that part is not deductible. Subtract the price of the tickets from your payment. You can deduct 80% of the remaining amount as a charitable contribution.

Example 1: You pay $300 a year for membership in a university’s athletic scholarship program. The only benefit of membership is that you have the right to buy one season ticket for a seat in a designated area of the stadium at the university’s home football games. You can deduct $240 (80% of $300) as a charitable contribution.

Example 2: The facts are the same as in Example 1 except that your $300 payment included the purchase of one season ticket for the stated ticket price of $120. You must subtract the usual price of a ticket ($120) from your $300 payment. The result is $180. Your deductible charitable contribution is $144 (80% of $180).

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.

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: You pay $40 to see a special showing of a movie for the benefit of a qualified 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).

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, other than those discussed under Athletic events, earlier, 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 $10.50.

**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.

**Exception:** An organization will not have to give you this statement if one of the following is true.

1. The organization is:
   a. A governmental organization described in (5) under Types of Qualified Organizations, earlier, or
   b. An organization only for religious purposes, and the only benefit you receive is an intangible religious benefit (such as admission to a religious ceremony) that generally is not sold in commercial transactions outside the donative context.
2. You receive only items whose value is not substantial. See **Token items**, earlier.
3. You receive only membership benefits that can be disregarded, as described earlier.

**EXPENSES PAID FOR STUDENT LIVING WITH YOU**
You may be able to deduct some expenses of having a student live with you. You can deduct qualifying expenses for a foreign or American student who:

1. Lives in your home under a written agreement between you and a qualified organization as part of a program of the organization to provide educational opportunities for the student,
2. Is not your dependent or relative, and
3. Is a full-time student in the twelfth or any lower grade at a school in the United States.
You can deduct up to $50 a month for each full calendar month the student lives with you. Any month when conditions (1) through (3) above are not met for 15 days or more counts as a full month.

**Mutual exchange program.** You cannot deduct the costs of a foreign student living in your home under a mutual exchange program through which your child will live with a family in a foreign country.

**OUT-OF-POCKET EXPENSES IN GIVING SERVICES**
Although you cannot deduct the value of your services given to a qualified organization, you may be able to deduct some amounts you pay in giving services to a qualified organization. The amounts must be:

- Unreimbursed,
- Directly connected with the services,
Itemized Deductions

- Expenses you had only because of the services you gave, and
- Not personal, living, or family expenses.

Table 4-2 contains questions and answers that apply to some individuals who volunteer their services.

**TABLE 4-2. VOLUNTEERS’ QUESTIONS AND ANSWERS**

If you volunteer for a qualified organization, the following questions and answers may apply to you. All of the rules explained in this chapter also apply. See, in particular, Out-of-Pocket Expenses in Giving Services.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>I volunteer 6 hours a week in the office of a qualified organization. The receptionist is paid $10 an hour to do the same work I do. Can I deduct $60 a week for my time?</td>
<td>No, you cannot deduct the value of your time or services.</td>
</tr>
<tr>
<td>The office is 30 miles from my home. Can I deduct any of my car expenses for these trips?</td>
<td>Yes, you can deduct the costs of gas and oil that are directly related to getting to and from the place where you are a volunteer. If you don’t want to figure your actual costs, you can deduct 14 cents for each mile.</td>
</tr>
<tr>
<td>I volunteer as a Red Cross nurse’s aide at a hospital. Can I deduct the cost of uniforms that I must wear?</td>
<td>Yes, you can deduct the cost of buying and cleaning your uniforms if the hospital is a qualified organization, the uniforms are not suitable for everyday use, and you must wear them when volunteering.</td>
</tr>
<tr>
<td>I pay a babysitter to watch my children while I do volunteer work for a qualified organization. Can I deduct these costs?</td>
<td>No, you cannot deduct payments for child care expenses as a charitable contribution, even if they are necessary so you can do volunteer work for a qualified organization.</td>
</tr>
</tbody>
</table>

**Conventions.** If a qualified organization selects you to attend a convention as its representative, you can deduct unreimbursed expenses for travel, including a reasonable amount for meals and lodging, while away from home overnight in connection with the convention. However, see Travel, later.

You cannot deduct personal expenses for sightseeing, fishing parties, theater tickets, or nightclubs. You also cannot deduct transportation, meals and lodging, and other expenses for your spouse or children.

You cannot deduct your expenses in attending a church convention if you go only as a member of your church rather than as a chosen representative. You can deduct unreimbursed expenses that are directly connected with giving services for your church during the convention.

**Uniforms.** You can deduct the cost and upkeep of uniforms that are not suitable for everyday use and that you must wear while performing donated services for a charitable organization.

**Foster parents.** You may be able to deduct as a charitable contribution some of the costs of being a foster parent (foster care provider) if you have no profit motive in providing the foster care and are not, in fact, making a profit. A qualified organization must designate the individuals you take into your home for foster care.

You can deduct expenses that meet both of the following requirements.

1. They are unreimbursed out-of-pocket expenses to feed, clothe, and care for the foster child.
2. They are incurred primarily to benefit the qualified organization.

Unreimbursed expenses that you cannot deduct as charitable contributions may be considered support provided by you in determining whether you can claim the foster child as a dependent.

**Example:** You cared for a foster child because you wanted to adopt her, not to benefit the agency that placed her in your home. Your unreimbursed expenses are not deductible as charitable contributions.

**Car expenses.** You can deduct as a charitable contribution any unreimbursed out-of-pocket expenses, such as the cost of gas and oil, that are directly related to the use of your car in giving services to a
charitable organization. You cannot deduct any part of general repair and maintenance expenses, depreciation, registration fees, or the costs of tires or insurance.

If you do not want to deduct your actual expenses, you can use a standard mileage rate of 14 cents a mile to figure your contribution.

You can deduct parking fees and tolls whether you use your actual expenses or the standard mileage rate. You must keep reliable written records of your car expenses. For more information, see Car expenses under Records to Keep, later.

**Travel.** Generally, you can claim a charitable contribution deduction for travel expenses necessarily incurred while you are away from home performing services for a charitable organization only if there is no significant element of personal pleasure, recreation, or vacation in the travel. This applies whether you pay the expenses directly or indirectly. You are paying the expenses indirectly if you make a payment to the charitable organization and the organization pays for your travel expenses. The deduction for travel expenses will not be denied simply because you enjoy providing services to the charitable organization. Even if you enjoy the trip, you can take a charitable contribution deduction for your travel expenses if you are on duty in a genuine and substantial sense throughout the trip. However, if you have only nominal duties, or if for significant parts of the trip you do not have any duties, you cannot deduct your travel expenses.

**Example 1:** You are a troop leader for a tax-exempt youth group and take the group on a camping trip. You are responsible for overseeing the setup of the camp and for providing the adult supervision for the other activities during the entire trip. You participate in the activities of the group and really enjoy your time with them. You oversee the breaking of camp and you transport the group home. You can deduct your travel expenses.

**Example 2:** You sail from one island to another and spend 8 hours a day counting whales and other forms of marine life. The project is sponsored by a charitable organization. In most circumstances, you cannot deduct your expenses.

**Example 3:** You work for several hours each morning on an archaeological dig sponsored by a charitable organization. The rest of the day is free for recreation and sightseeing. You cannot take a charitable contribution deduction even though you work very hard during those few hours.

**Example 4:** You spend the entire day attending a charitable organization’s regional meeting as a chosen representative. In the evening you go to the theater. You can claim your travel expenses as charitable contributions, but you cannot claim the cost of your evening at the theater.

**Daily allowance (per diem).** If you provide services for a charitable organization and receive a daily allowance to cover reasonable travel expenses, including meals and lodging while away from home overnight, you must include in income the amount of the allowance that is more than your deductible travel expenses. You may be able to deduct any necessary travel expenses that are more than the allowance.

**Deductible travel expenses.** These include:

- Air, rail, and bus transportation,
- Out-of-pocket expenses for your car,
- Taxi fares or other costs of transportation between the airport or station and your hotel,
- Lodging costs, and
- The cost of meals.

Because these travel expenses are not business related, they are not subject to the same limits as business-related expenses.

**IV. Contributions You Cannot Deduct**

There are some contributions that you cannot deduct, such as those made to individuals and those made to nonqualified organizations. (See Contributions to Individuals and Contributions to Nonqualified
Organizations, next). There are others that you can deduct only part of, as discussed later under Contributions From Which You Benefit.

**CONTRIBUTIONS TO INDIVIDUALS**

You cannot deduct contributions to specific individuals, including the following.

- Contributions to fraternal societies made for the purpose of paying medical or burial expenses of deceased members.
- Contributions to individuals who are needy or worthy. This includes contributions to a qualified organization if you indicate that your contribution is for a specific person. But you can deduct a contribution that you give to a qualified organization that in turn helps needy or worthy individuals if you do not indicate that your contribution is for a specific person.
- Payments to a member of the clergy that can be spent as he or she wishes, such as for personal expenses.
- Expenses you paid for another person who provided services to a qualified organization.

**Example**: Your son does missionary work. You pay his expenses. You cannot claim a deduction for your son’s unreimbursed expenses related to his contribution of services.

- Payments to a hospital that are for services for a specific patient. You cannot deduct these payments even if the hospital is operated by a city, a state, or other qualified organization.

**CONTRIBUTIONS TO NONQUALIFIED ORGANIZATIONS**

You cannot deduct contributions to organizations that are not qualified to receive tax-deductible contributions, including the following.

1. Certain state bar associations if:
   a) The state bar is not a political subdivision of a state,
   b) The bar has private, as well as public, purposes, such as promoting the professional interests of members, and
   c) Your contribution is unrestricted and can be used for private purposes.
2. Chambers of commerce and other business leagues or organizations.
3. Civic leagues and associations.
4. Country clubs and other social clubs.
5. Most foreign organizations.
6. Homeowners’ associations.
7. Labor unions.
8. Political organizations and candidates.

**CONTRIBUTIONS FROM WHICH YOU BENEFIT**

If you receive or expect to receive a financial or economic benefit as a result of making a contribution to a qualified organization, you cannot deduct the part of the contribution that represents the value of the benefit you receive or expect to receive. These contributions include the following.

- Contributions for lobbying. This includes amounts that you earmark for use in, or in connection with, influencing specific legislation.
- Contributions to a retirement home that are clearly for room, board, maintenance, or admittance. Also, if the amount of your contribution depends on the type or size of apartment you will occupy, it is not a charitable contribution.
• Costs of raffles, bingo, lottery, etc. You cannot deduct as a charitable contribution amounts you pay to buy raffle or lottery tickets or to play bingo or other games of chance.

• Dues to fraternal orders and similar groups. However, see Membership fees or dues, earlier, under Contributions You Can Deduct.

• Tuition, or amounts you pay instead of tuition, even if you pay them for children to attend parochial schools or qualifying nonprofit day-care centers. You also cannot deduct any fixed amount you may be required to pay in addition to the tuition fee to enroll in a private school, even if it is designated as a “donation.”

**VALUE OF TIME OR SERVICES**
You cannot deduct the value of your time or services, including:

• Blood donations to the American Red Cross or to blood banks, and

• The value of income lost while you work as an unpaid volunteer for a qualified organization.

**PERSONAL EXPENSES**
You cannot deduct personal, living, or family expenses, such as:

• The cost of meals you eat while you perform services for a qualified organization unless it is necessary for you to be away from home overnight while performing the services, or

• Adoption expenses, including fees paid to an adoption agency and the costs of keeping a child in your home before adoption is final. You also may be able to claim an exemption for the child.

**APPRAISAL FEES**
Fees that you pay to find the fair market value of donated property are not deductible as a charitable contribution.

**V. Contributions Of Property**

If you contribute property to a qualified organization, the amount of your charitable contribution is generally the fair market value of the property at the time of the contribution. However, if the property has increased in value, you may have to make some adjustments to the amount of your deduction. See Giving Property That Has Increased in Value, later.

For information about the records you must keep and the information you must furnish with your return if you donate property, see Records To Keep and How To Report, later.

**Clothing and household items.** You cannot take a deduction for clothing or household items you donate, unless the clothing or household items are in good used condition or better.

**Exception:** You can take a deduction for a contribution of an item of clothing or household item that is not in good used condition or better if you deduct more than $500 for it and include a qualified appraisal of it with your return.

**Household items.** Household items include:

• Furniture,

• Furnishings,

• Electronics,

• Appliances,

• Linens, and

• Other similar items.

Household items do not include:
- Food,
- Paintings, antiques, and other objects of art,
- Jewelry and gems, and
- Collections.

**Cars, boats, and airplanes.** The following rules apply to any donation of a qualified vehicle. A qualified vehicle is:

- A car or any motor vehicle manufactured mainly for use on public streets, roads, and highways,
- A boat, or
- An airplane.

**Deduction more than $500.** If you donate a qualified vehicle to a qualified organization and you claim a deduction of more than $500, you can deduct the smaller of:

- The gross proceeds from the sale of the vehicle by the organization, or
- The vehicle’s fair market value on the date of the contribution. If the vehicle’s fair market value was more than your cost or other basis, you may have to reduce the fair market value to get the deductible amount, as described under Giving Property That Has Increased in Value, later.

**Form 1098-C.** You must attach to your return the copy of the Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, (or other statement containing the same information as Form 1098-C) you received from the organization. The Form 1098-C (or other statement) will show the gross proceeds from the sale of the vehicle.

If you e-file your return, you must: (a) attach Copy B of Form 1098-C to Form 8453 and mail the forms to the IRS, or (b) include Copy B of Form 1098-C as a PDF attachment if your software program allows it.

If you do not attach Form 1098-C (or other statement), you cannot deduct your contribution. You must get Form 1098-C (or other statement) within 30 days of the sale of the vehicle. But if exception 1 or 2 (described next) applies, you must get Form 1098-C (or other statement) within 30 days of your donation.

**Exceptions.** There are two exceptions to the rules just described for deductions of more than $500.

**Exception 1: Vehicle used or improved by organization.** If the qualified organization makes a significant intervening use of or material improvement to the vehicle before transferring it, you generally can deduct the vehicle’s fair market value at the time of the contribution. But if the vehicle’s fair market value was more than your cost or other basis, you may have to reduce the fair market value to get the deductible amount, as described under Giving Property That Has Increased in Value, later. The Form 1098-C (or other statement) will show whether this exception applies.

**Exception 2: Vehicle given or sold to needy individual.** If the qualified organization will give the vehicle, or sell it for a price well below fair market value, to a needy individual to further the organization’s charitable purpose, you generally can deduct the vehicle’s fair market value at the time of the contribution. But if the vehicle’s fair market value was more than your cost or other basis, you may have to reduce the fair market value to get the deductible amount, as described under Giving Property That Has Increased in Value, later. The Form 1098-C (or other statement) will show whether this exception applies.

This exception does not apply if the organization sells the vehicle at auction. In that case, you cannot deduct the vehicle’s fair market value.

**Example:** Anita donates a used car to a qualified organization. She bought it 3 years ago for $9,000. A used car guide shows the fair market value for this type of car is $6,000. However, Anita gets a Form 1098-C from the organization showing the car was sold for $2,900. Neither exception 1 nor exception 2 applies. If Anita itemizes her deductions, she can deduct $2,900 for her donation. She must attach the Form 1098-C and Form 8283 to her return.

**Deduction $500 or less.** If the qualified organization sells the vehicle for $500 or less and exceptions 1 and 2 do not apply, you can deduct the smaller of:
• $500, or

• The vehicle’s fair market value on the date of the contribution. But if the vehicle’s fair market value was more than your cost or other basis, you may have to reduce the fair market value to get the deductible amount, as described under Giving Property That Has Increased in Value, later. If the vehicle’s fair market value is at least $250 but not more than $500, you must have a written statement from the qualified organization acknowledging your donation. The statement must contain the information and meet the tests for an acknowledgement described under Deductions of At Least $250 But Not More Than $500 under Records to Keep, later.

Partial interest in property. Generally, you cannot deduct a charitable contribution (not made by a transfer in trust) of less than your entire interest in property.

Right to use property. A contribution of the right to use property is a contribution of less than your entire interest in that property and is not deductible.

Future interests in tangible personal property. You can deduct the value of a charitable contribution of a future interest in tangible personal property only after all intervening interests in and rights to the actual possession or enjoyment of the property have either expired or been turned over to someone other than yourself, a related person, or related organization.

Tangible personal property. This is any property, other than land or buildings, that can be seen or touched. It includes furniture, books, jewelry, paintings, and cars.

Future interest. This is any interest that is to begin at some future time, regardless of whether it is designated as a future interest under state law.

DETERMINING FAIR MARKET VALUE

This section discusses general guidelines for determining the fair market value of various types of donated property. Fair market value is the price at which property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts.

Used clothing and household items. Generally, the fair market value of used clothing and household goods is far less than what you paid for them when they were new. For used clothing, you should claim as the value the price that buyers of used items actually pay in used clothing stores, such as consignment or thrift shops.

Example: Dawn Greene donated a coat to a thrift store operated by her church. She paid $300 for the coat 3 years ago. Similar coats in the thrift store sell for $50. The fair market value of the coat is reasonably determined to be $50. Dawn’s donation is limited to $50.

Cars, boats, and airplane. If you contribute a car, boat, or airplane to a charitable organization, you must determine its fair market value.

Certain commercial firms and trade organizations publish guides, commonly called “blue books,” containing complete dealer sale prices or dealer average prices for recent model years. The guides may be published monthly or seasonally and for different regions of the country. These guides also provide estimates for adjusting for unusual equipment, unusual mileage, and physical condition. The prices are not “official” and these publications are not considered an appraisal of any specific donated property. But they do provide clues for making an appraisal and suggest relative prices for comparison with current sales and offerings in your area.

Example: You donate a used car in poor condition to a local high school for use by students studying car repair. A used car guide shows the dealer retail value for this type of car in poor condition is $1,600. However, the guide shows the price for a private party sale of the car is only $750. The fair market value of the car is considered to be $750.

Large quantities. If you contribute a large number of the same item, fair market value is the price at which comparable numbers of the item are being sold.
GIVING PROPERTY THAT HAS DECREASED IN VALUE
If you contribute property with a fair market value that is less than your basis in it, your deduction is limited to its fair market value. You cannot claim a deduction for the difference between the property’s basis and its fair market value.

GIVING PROPERTY THAT HAS INCREASED IN VALUE
If you contribute property with a fair market value that is more than your basis in it, you may have to reduce the fair market value by the amount of appreciation (increase in value) when you figure your deduction.

Your basis in property is generally what you paid for it.

Different rules apply to figuring your deduction, depending on whether the property is:

1. Ordinary income property, or
2. Capital gain property.

**Ordinary income property.** Property is ordinary income property if you would have recognized ordinary income or short-term capital gain had you sold it at fair market value on the date it was contributed. Examples of ordinary income property are inventory, works of art created by the donor, manuscripts prepared by the donor, and capital assets held 1 year or less.

**Amount of deduction.** The amount you can deduct for a contribution of ordinary income property is its fair market value minus the amount that would be ordinary income or short-term capital gain if you sold the property for its fair market value. Generally, this rule limits the deduction to your basis in the property.

**Example:** You donate stock that you held for 5 months to your church. The fair market value of the stock on the day you donate it is $1,000, but you paid only $800 (your basis). Because the $200 of appreciation would be short-term capital gain if you sold the stock, your deduction is limited to $800 (fair market value less the appreciation).

**Capital gain property.** Property is capital gain property if it would have resulted in long-term capital gain had you sold it at fair market value on the date of the contribution. It includes capital assets held more than 1 year, as well as certain real property and depreciable property used in your trade or business and, generally, held more than 1 year.

**Amount of deduction – general rule.** When figuring your deduction for a contribution of capital gain property, you usually can use the fair market value of the property.

**Exception:** In certain situations, you must reduce the fair market value by any amount that would have been long-term capital gain if you had sold the property for its fair market value. Generally, this means reducing the fair market value to the property’s cost or other basis.

**Bargain sales.** A bargain sale of property is a sale or exchange for less than the property’s fair market value. A bargain sale to a qualified organization is partly a charitable contribution and partly a sale or exchange. A bargain sale may result in a taxable gain.

**VI. When To Deduct**

You can deduct your contributions only in the year you actually make them in cash or other property (or in a later carryover year, as explained later under Carryovers). This applies whether you use the cash or an accrual method of accounting.

**Time of making contribution.** Usually, you make a contribution at the time of its unconditional delivery.

**Checks.** A check that you mail to a charity is considered delivered on the date you mail it.

**Text message.** Contributions made by text message are deductible in the year you send the text message if the contribution is charged to your telephone or wireless account.

**Credit card.** Contributions charged on your bank credit card are deductible in the year you make the charge.
Pay-by-phone account. Contributions made through a pay-by-phone account are considered delivered on the date the financial institution pays the amount.

Stock certificate. A properly endorsed stock certificate is considered completed on the date of mailing or other delivery to the charity or to the charity’s agent. However, if you give a stock certificate to your agent or to the issuing corporation for transfer to the name of the charity, your contribution is not delivered until the date the stock is transferred on the books of the corporation.

Promissory note. If you issue and deliver a promissory note to a charitable organization as a contribution, it is not a contribution until you make the note payments.

Option. If you grant a charity an option to buy real property at a bargain price, it is not a contribution until the organization exercises the option.

Borrowed funds. If you contribute borrowed funds, you can deduct the contribution in the year you deliver the funds to the charity, regardless of when you repay the loan.

VII. Limits On Deductions

The amount you can deduct for charitable contributions cannot be more than 50% of your adjusted gross income (AGI). Your deduction may be further limited to 30% or 20% of your AGI, depending on the type of property you give and the type of organization you give it to. If your total contributions for the year are 20% or less of your AGI, these limits do not apply to you.

50% LIMIT
This limit applies to the total of all charitable contributions you make during the year. This means that your deduction for charitable contributions cannot be more than 50% of your adjusted gross income for the year.

Generally, the 50% limit is the only limit that applies to contributions to organizations listed below under 50% limit organizations. But there is one exception. The 30% limit also applies to such contributions if they are contributions of capital gain property for which you figure your deduction using fair market value without reduction for appreciation. (See Special 30% Limit for Capital Gain Property, later.)

50% limit organizations. You can ask any organization whether it is a 50% limit organization and most will be able to tell you. Or you can go to IRS.gov. Click on “Tools” and then on “Exempt Organizations Select Check” (www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check). This online tool will enable you to search for qualified organizations. The following is a partial list of the types of organizations that are 50% limit organizations.

1. Churches and conventions or associations of churches.
2. Educational organizations with a regular faculty and curriculum that normally have a regularly enrolled student body attending classes on site.
3. Hospitals and certain medical research organizations associated with these hospitals.
4. Publicly supported charities.

30% LIMIT
A 30% limit applies to the following contributions:

- Contributions to all qualified organizations other than 50% limit organizations. This includes contributions to veterans’ organizations, fraternal societies, nonprofit cemeteries, and certain private nonoperating foundations.
- Contributions for the use of any qualified organization.

However, if these contributions are of capital gain property, they are subject to the 20% limit, described later, rather than the 30% limit.

Student living with you. Amounts you spend on behalf of a student living with you are subject to the 30% limit. These amounts are considered a contribution for the use of a qualified organization. See Expenses Paid for Student Living With You, earlier.
SPECIAL 30% LIMIT FOR CAPITAL GAIN PROPERTY
A special 30% limit applies to contributions of capital gain property to 50% limit organizations. (For contributions of capital gain property to other organizations, see 20% Limit, later.) However, the special 30% limit does not apply when you choose to reduce the fair market value of the property by the amount that would have been long-term capital gain if you had sold the property. Instead, only the 50% limit applies.
Also, the special 30% limit doesn’t apply to qualified conservation contributions.
Two separate 30% limits. This special 30% limit for capital gain property is separate from the other 30% limit. Therefore, the deduction of a contribution subject to one 30% limit does not reduce the amount you can deduct for contributions subject to the other 30% limit. However, the total you deduct cannot be more than 50% of your adjusted gross income.

Example: Your adjusted gross income is $50,000. During the year, you gave capital gain property with a fair market value of $15,000 to a 50% limit organization. You do not choose to reduce the property’s fair market value by its appreciation in value. You also gave $10,000 cash to a qualified organization that is not a 50% limit organization. The $15,000 gift of property is subject to the special 30% limit. The $10,000 cash gift is subject to the other 30% limit. Both gifts are fully deductible because neither is more than the 30% limit that applies ($15,000 in each case) and together they are not more than the 50% limit ($25,000).

20% LIMIT
This limit applies to all contributions of capital gain property to or for the use of qualified organizations (other than contributions of capital gain property to 50% limit organizations).

CARRYOVERS
You can carry over your contributions that you cannot deduct in the current year because they exceed your adjusted-gross-income limits. You can deduct the excess in each of the next 5 years until it is used up, but not beyond that time.

VIII. Records To Keep
You must keep records to prove the amount of the contributions you make during the year. The kind of records you must keep depends on the amount of your contributions and whether they are:

- Cash contributions,
- Noncash contributions, or
- Out-of-pocket expenses when donating your services.

CASH CONTRIBUTIONS
Cash contributions include those paid by cash, check, electronic funds transfer, credit card, or payroll deduction.
You cannot deduct a cash contribution, regardless of the amount, unless you keep one of the following.

1. A bank record that shows the name of the qualified organization, the date of the contribution, and the amount of the contribution. Bank records may include:
   a) A canceled check,
   b) A bank or credit union statement, or
   c) A credit card statement.
2. A receipt (or letter or other written communication) from the qualified organization showing the name of the organization, the date of the contribution, and the amount of the contribution.
3. The payroll deduction records described next.

Payroll deductions. If you can make a contribution by payroll deduction, you must keep:
1. A pay stub, Form W-2, or other document furnished by your employer that shows the date and amount of the contribution, and

2. A pledge or other document prepared by you for the qualified organization that shows the name of the organization.

If your employer withheld $250 or more from a single paycheck, see Contributions of $250 or More, next.

**Contributions of $250 or More**

You can claim a deduction for a contribution of $250 or more only if you have an acknowledgment of your contribution from the qualified organization or certain payroll deduction records.

If you made more than one contribution of $250 or more, you must have either a separate acknowledgment for each or one acknowledgment that lists each contribution and the date of each contribution and shows your total contributions.

**Amount of contribution.** In figuring whether your contribution is $250 or more, do not combine separate contributions. For example, if you gave your church $25 each week, your weekly payments do not have to be combined. Each payment is a separate contribution.

If contributions are made by payroll deduction, the deduction from each paycheck is treated as a separate contribution.

If you made a payment that is partly for goods and services, as described earlier under Contributions From Which You Benefit, your contribution is the amount of the payment that is more than the value of the goods and services.

**Acknowledgment.** The acknowledgment must meet these tests.

1. It must be written.

2. It must include:
   
   a) The amount of cash you contributed,
   
   b) Whether the qualified organization gave you any goods or services as a result of your contribution (other than certain token items and membership benefits),
   
   c) A description and good faith estimate of the value of any goods or services described in (b) (other than intangible religious benefits), and
   
   d) A statement that the only benefit you received was an intangible religious benefit, if that was the case. The acknowledgment does not need to describe or estimate the value of an intangible religious benefit. An intangible religious benefit is a benefit that generally is not sold in commercial transactions outside a donative (gift) context. An example is admission to a religious ceremony.

3. You must get it on or before the earlier of:
   
   a) The date you file your return for the year you make the contribution, or
   
   b) The due date, including extensions, for filing the return.

If the acknowledgment does not show the date of the contribution, you must also have a bank record or receipt, as described earlier, that does show the date of the contribution. If the acknowledgment does show the date of the contribution and meets the other tests just described, you do not need any other records.

**Payroll deductions.** If you make a contribution by payroll deduction and your employer withheld $250 or more from a single paycheck, you must keep:

1. A pay stub, Form W-2, or other document furnished by your employer that shows the amount withheld as a contribution, and

2. A pledge card or other document prepared by or for the qualified organization that shows the name of the organization and states the organization does not provide goods or services in return for any contribution made to it by payroll deduction.
A single pledge card may be kept for all contributions made by payroll deduction regardless of amount as long as it contains all the required information.

If the pay stub, Form W-2, pledge card, or other document does not show the date of the contribution, you must also have another document that does show the date of the contribution. If the pay stub, Form W-2, pledge card, or other document does show the date of the contribution, you do not need any other records except those just described in (1) and (2).

**NONCASH CONTRIBUTIONS**

For a contribution not made in cash, the records you must keep depend on whether your deduction for the contribution is:

1. Less than $250,
2. At least $250 but not more than $500,
3. Over $500 but not more than $5,000, or
4. Over $5,000.

**Amount of deduction.** In figuring whether your deduction is $500 or more, combine your claimed deductions for all similar items of property donated to any charitable organization during the year. If you received goods or services in return, as described earlier in Contributions From Which You Benefit, reduce your contribution by the value of those goods or services. If you figure your deduction by reducing the fair market value of the donated property by its appreciation, as described earlier in Giving Property That Has Increased in Value, your contribution is the reduced amount.

**Deductions of Less Than $250**

If you make any noncash contribution, you must get and keep a receipt from the charitable organization showing:

1. The name of the charitable organization,
2. The date and location of the charitable contribution, and
3. A reasonably detailed description of the property.

You are not required to have a receipt where it is impractical to get one (for example, if you leave property at a charity’s unattended drop site).

**Additional records.** You must also keep reliable written records for each item of donated property. Your written records must include the following information.

1. The name and address of the organization to which you contributed.
2. The date and location of the contribution.
3. A description of the property in detail reasonable under the circumstances. For a security, keep the name of the issuer, the type of security, and whether it is regularly traded on a stock exchange or in an over-the-counter market.
4. The fair market value of the property at the time of the contribution and how you figured the fair market value. If it was determined by appraisal, keep a signed copy of the appraisal.
5. The cost or other basis of the property if you must reduce its fair market value by appreciation. Your records should also include the amount of the reduction and how you figured it.
6. The amount you claim as a deduction for the tax year as a result of the contribution, if you contribute less than your entire interest in the property during the tax year. Your records must include the amount you claimed as a deduction in any earlier years for contributions of other interests in this property. They must also include the name and address of each organization to which you contributed the other interests, the place where any such tangible property is located or kept, and the name of any person in possession of the property, other than the organization to which you contributed.
7. The terms of any conditions attached to the gift of property.

**Deductions of at Least $250 but Not More Than $500**

If you claim a deduction of at least $250 but not more than $500 for a noncash charitable contribution, you must get and keep an acknowledgment of your contribution from the qualified organization. If you made more than one contribution of $250 or more, you must have either a separate acknowledgment for each or one acknowledgment that shows your total contribution.

The acknowledgment must contain the information in items (1) through (3) listed under **Deductions of Less Than $250**, earlier, and your written records must include the information listed in that discussion under **Additional records**.

The acknowledgment must also meet these tests.

1. It must be written.

2. It must include:
   a) A description (but not necessarily the value) of any property you contributed,
   b) Whether the qualified organization gave you any goods or services as a result of your contribution (other than certain token items and membership benefits), and
   c) A description and good faith estimate of the value of any goods or services described in (b).

   If the only benefit you received was an intangible religious benefit (such as admission to a religious ceremony) that generally is not sold in a commercial transaction outside the donative context, the acknowledgment must say so and does not need to describe or estimate the value of the benefit.

3. You must get it on or before the earlier of:
   a) The date you file your return for the year you make the contribution, or
   b) The due date, including extensions, for filing the return.

**Deductions Over $500**

You are required to give additional information if you claim a deduction over $500 for noncash charitable contributions.

**OUT-OF-POCKET EXPENSES**

If you render services to a qualified organization and have unreimbursed out-of-pocket expenses related to those services, the following two rules apply.

1. You must have adequate records to prove the amount of the expenses.

2. If any of your unreimbursed out-of-pocket expenses, considered separately, are $250 or more (for example, you pay $250 or more for an airline ticket to attend a convention of a qualified organization as a chosen representative), you must get an acknowledgment from the qualified organization that contains:
   a) A description of the services you provided,
   b) A statement of whether or not the organization provided you any goods or services to reimburse you for the expenses you incurred,
   c) A description and a good faith estimate of the value of any goods or services (other than intangible religious benefits) provided to reimburse you, and
   d) A statement that the only benefit you received was an intangible religious benefit, if that was the case. The acknowledgment does not need to describe or estimate the value of an intangible religious benefit (defined earlier under Acknowledgment).

You must get the acknowledgment on or before the earlier of:

1. The date you file your return for the year you make the contribution,
2. The due date, including extensions, for filing the return.

**Car expenses.** If you claim expenses directly related to use of your car in giving services to a qualified organization, you must keep reliable written records of your expenses. Whether your records are considered reliable depends on all the facts and circumstances. Generally, they may be considered reliable if you made them regularly and at or near the time you had the expenses.

For example, your records might show the name of the organization you were serving and the date each time you used your car for a charitable purpose. If you use the standard mileage rate of 14 cents a mile, your records must show the miles you drove your car for the charitable purpose. If you deduct your actual expenses, your records must show the costs of operating the car that are directly related to a charitable purpose.

See Car expenses under Out-of-Pocket Expenses in Giving Services, earlier, for the expenses you can deduct.

**IX. How To Report**

Report your charitable contributions on Schedule A (Form 1040). If your total deduction for all noncash contributions for the year is over $500, you must also file Form 8283.

**CHAPTER 4: TEST YOUR KNOWLEDGE**

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. Claiming deductions for charitable contributions are generally limited to gifts given to qualifying organizations, such as which of the following:
   - A. country clubs and other social clubs
   - B. churches and religious organizations
   - C. homeowners’ associations
   - D. political organizations and candidates

2. In regards to contributions of property to a qualified organization, household items include which of the following:
   - A. food
   - B. appliances
   - C. paintings
   - D. jewelry

**CHAPTER 4: SOLUTIONS AND SUGGESTED RESPONSES**

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1. Incorrect. You cannot deduct contributions to organizations that are not qualified to receive tax-deductible contributions such as country clubs or other social organizations.
B. **CORRECT.** Churches and religious organizations are generally qualified organizations for accepting tax-deductible charitable contributions.

C. Incorrect. Homeowners’ associations are not qualified organizations with regard to accepting tax-deductible charitable contributions.

D. Incorrect. Political organizations and candidates are generally not recognized as charitable organizations for tax deductibility purposes.

2.

A. Incorrect. Household items do not include food.

B. **CORRECT.** Household items include appliances as well as furniture, furnishings, electronics, linens, and other similar items.

C. Incorrect. Paintings, antiques, and other objects of art are not included as household items.

D. Incorrect. Household items do not include jewelry and gems.
FINAL EXAM

The following exam is attached only for your convenience. To access the official exam for this self-study course, please log into your account online and take the Final Exam from the course details page. A passing score of 70 percent or better will receive course credit and a Certificate of Completion.

1. What is the 2016 standard deduction for head of household:
   A. $4,650
   B. $6,300
   C. $9,300
   D. $12,600

2. What does the standard deduction amount depend on:
   A. your filing status
   B. whether you are 65 or older or blind
   C. whether another taxpayer can claim an exemption for you
   D. all of the above

3. What medical expenses can be included in the medical expense deduction:
   A. only medical expenses that were paid in the current tax year
   B. only medical expenses for services provided in the current tax year, regardless of when paid
   C. only medical expenses for services provided and paid for in the current tax year
   D. medical expenses paid with a credit card, only if the credit card charges have been paid off in the current tax year

4. Generally, medical and dental expenses that can be listed on Schedule A (Form 1040) include which of the following:
   A. diagnostic devices
   B. contributions to Archer MSAs
   C. funeral, burial, or cremation services
   D. herbal supplements

5. Which of the following cannot be included in your medical expenses on Schedule A (Form 1040):
   A. medical insurance premiums for hospitalization
   B. medical insurance premiums for long-term care
   C. medical expenses reimbursed by a health reimbursement arrangement
   D. medical expense premiums paid for Medicare Part D

6. Generally, which of the following fees and charges can you deduct:
   A. fees and charges that are for your trade or business
   B. license fees for personal use
   C. charges for water bills
   D. fines and penalties paid to the government

7. Which of the following real estate taxes and charges are not deductible:
   A. state and local real estate taxes
   B. foreign real estate taxes
   C. tenant’s share of real estate taxes paid by a cooperative housing corporation
   D. homeowners’ association charges

8. To be able to deduct out-of-pocket expenses you pay when providing services to a qualified charitable organization, those expenses must be which of the following:
A. unreimbursed  
B. directly connected with the services  
C. not personal, living, or family expenses  
D. all of the above  

9. Which of the following is not deductible as a charitable contribution:  
   A. the value of services given to a qualified organization  
   B. any unreimbursed out-of-pocket car expenses for gas and oil  
   C. parking fees and tolls  
   D. travel expenses necessarily incurred while away from home specifically performing services for a charitable organization  

10. If you donate a qualified vehicle with a fair market value less than your cost or other basis to a qualified organization and you claim a deduction of more than $500, how much can you deduct:  
    A. the gross proceeds from the sale of the vehicle by the organization  
    B. the vehicle’s fair market value on the date of the contribution  
    C. the lesser of 1 or 2 above  
    D. the greater of 1 or 2 above