

4 Itemized Deductions

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■ New for 2025 ■

- **State and local tax (SALT) deduction limitation.** This limitation has increased and has been made permanent. See *State and Local Tax (SALT) Deduction Limitation*, page 4-8.
- **Home mortgage interest deduction.** The \$750,000 home acquisition debt limit has been made permanent. See *Deductible Home Mortgage Interest* chart, page 4-10.
- **Casualty and theft loss.** New guidance allows certain scam victims to claim a theft loss. See *Scam victims*, page 4-23.

Common Elections

- Election to deduct state and local income tax or sales tax, page 4-8.
- Election to treat mortgage interest as not secured by the home, page 4-11.
- Election to treat qualified dividends and net long-term capital gain as investment income, page 4-14.
- Election to capitalize interest and taxes, page 4-14.
- Election to deduct disaster loss in preceding year, page 4-23.

Itemized Deductions on Separate Returns*

<i>If taxpayer paid:</i>	<i>And taxpayer:</i>	<i>Then deduct:</i>
Medical expenses	Paid with joint checking account funds	Half of total medical expenses, unless taxpayer can prove otherwise.
State income tax	Files a separate state tax return	State income tax taxpayer alone paid.
	Files joint state return (and jointly and individually liable for state tax)	State income tax taxpayer alone paid.
	Files joint state return and only liable for taxpayer's share of state income tax	Smaller of: <ul style="list-style-type: none"> • State income tax taxpayer alone paid, or • Taxpayer's allocable share of joint state income tax paid.
Property tax	Paid tax on property held as tenants by entirety or owned solely by taxpayer	Property tax the taxpayer alone paid.
	Paid property tax on jointly owned home from joint funds	Generally, half the property tax paid.
Mortgage interest	Paid interest on home held as tenants by entirety	Mortgage interest taxpayer alone paid.
	Paid interest on jointly owned home from joint funds	Generally, half the mortgage interest paid.
Casualty loss	Have loss on home owned as tenants by entirety	Half of the loss. Neither spouse can report total loss.

* A taxpayer can claim the above itemized deductions on a Married Filing Separately return whether they paid the expenses separately with their own funds or jointly with their spouse.

Note: Above rules do not apply in community property states.

Medical Expenses (page 4-2)

- Medical lodging (such as a hotel that is not a hospital or similar institution) is limited to \$50 per night per person. No deduction for meals.
- Qualified long-term care insurance premium limits:

	2025	2024	2023	2022
Age 40 and under	\$480	\$470	\$480	\$450
Age 41–50	\$900	\$880	\$890	\$850
Age 51–60	\$1,800	\$1,760	\$1,790	\$1,690
Age 61–70	\$4,810	\$4,710	\$4,770	\$4,510
Age 71 and over	\$6,020	\$5,880	\$5,960	\$5,640

- Qualified long-term care insurance per diem limits:

	2025	2024	2023	2022
Per day	\$420	\$410	\$420	\$390

Standard Mileage Rates

- Medical Standard Mileage Rate (see *Auto expenses*, page 4-7)

2025	2024	2023	2022	2021
21.0¢	21.0¢	22.0¢	Before July 1: 18.0¢	16.0¢
			After June 30: 22.0¢	

- Charitable Standard Mileage Rate (see *Auto expenses*, page 4-17)

2025	2024	2023	2022	2021
14.0¢	14.0¢	14.0¢	14.0¢	14.0¢

Fair Market Value Guide for Used Items

Men's Clothing

Jacket	\$8 – \$26
Overcoat	\$16 – \$62
Pajamas	\$2 – \$8
Raincoat	\$5 – \$21
Shirt	\$3 – \$12
Shoes	\$4 – \$26
Shorts	\$4 – \$10
Slacks	\$5 – \$12
Suit	\$16 – \$62
Sweater	\$3 – \$12
Swim trunks	\$3 – \$8
Tuxedo	\$10 – \$62

Women's Clothing

Bathing suit	\$4 – \$12
Bathrobe	\$3 – \$12
Blouse	\$3 – \$12
Boots	\$2 – \$5
Coat	\$10 – \$41
Dress	\$4 – \$20
Evening dress	\$10 – \$62
Fur coat	\$26 – \$415
Fur hat	\$7 – \$16
Handbag	\$2 – \$21
Hat	\$1 – \$8
Jacket	\$4 – \$12
Nightgown	\$4 – \$12
Pants suit	\$7 – \$26
Shoes	\$2 – \$26
Skirt	\$3 – \$8
Slacks	\$4 – \$12
Suit	\$6 – \$26
Sweater	\$4 – \$16

Children's Clothing

Blouse	\$2 – \$8
Boots	\$3 – \$21
Coat	\$5 – \$21
Dress	\$4 – \$12
Jacket	\$3 – \$26
Jeans	\$4 – \$12
Pants	\$3 – \$12
Shirt	\$2 – \$6
Shoes	\$3 – \$9
Skirt	\$2 – \$6
Slacks	\$2 – \$8
Snowsuit	\$4 – \$20
Sweater	\$3 – \$8

Household Goods

Bakeware	\$1 – \$3
Bedsprad/quilt	\$3 – \$25
Blanket	\$3 – \$16
Chair/sofa cover	\$16 – \$36
Coffeemaker	\$4 – \$16
Curtains	\$2 – \$12
Drapes	\$7 – \$41
Fireplace set	\$21 – \$83
Floor lamp	\$6 – \$52
Glass/cup	\$0.50 – \$2
Griddle	\$4 – \$12
Kitchen utensils	\$0.50 – \$2
Lamp	\$5 – \$78
Mixer/blender	\$5 – \$21
Picture/painting	\$5 – \$207
Pillow	\$2 – \$8
Plate	\$0.50 – \$3
Pot/pan	\$1 – \$3
Sheets	\$2 – \$8
Throw rug	\$2 – \$12
Towel	\$0.50 – \$4

Furniture

Bed (full, queen, king)	\$52 – \$176
Bed (single)	\$36 – \$104
Bedroom set	\$259 – \$1,037
Chair (upholstered)	\$26 – \$104
Chest	\$26 – \$99
China cabinet	\$89 – \$311
Clothes closet	\$16 – \$52
Coffee table	\$16 – \$67
Crib and mattress	\$26 – \$104
Desk	\$26 – \$145
Dining room set	\$156 – \$934
Dresser with mirror	\$21 – \$104
End table	\$10 – \$52
Folding bed	\$21 – \$62
Hi riser	\$36 – \$78
High chair	\$10 – \$52
Kitchen cabinet	\$26 – \$78
Kitchen chair	\$3 – \$10
Kitchen set	\$36 – \$176
Mattress (double)	\$13 – \$78
Mattress (single)	\$16 – \$36
Playpen	\$4 – \$31
Rugs	\$21 – \$93
Secretary	\$52 – \$145
Sleeper sofa with mattress	\$88 – \$311
Sofa	\$36 – \$207
Trunk	\$5 – \$73
Wardrobe	\$21 – \$104

Appliances

Air conditioner	\$21 – \$93
Dryer	\$47 – \$93
Electric stove	\$78 – \$156
Freezer	\$25 – \$100
Gas stove	\$52 – \$130
Heater	\$8 – \$23
Microwave	\$10 – \$50
Refrigerator	\$78 – \$259
TV (color)	\$78 – \$233
Washing machine	\$41 – \$156

Miscellaneous

Bicycle	\$5 – \$83
Board game	\$1 – \$3
Book (hardback)	\$1 – \$3
Book (paperback)	\$1 – \$2
Carriage	\$5 – \$100
CD	\$2 – \$5
Cell phone	\$25 – \$100
Computer monitor	\$5 – \$51
Computer printer	\$5 – \$155
Computer system	\$104 – \$415
Copier	\$41 – \$207
DVD	\$2 – \$5
DVD player/VCR	\$8 – \$16
Edger	\$5 – \$26
eReader	\$10 – \$50
Golf club (individual)	\$2 – \$26
Ice skates	\$3 – \$16
Luggage	\$5 – \$16
Mower	\$26 – \$104
Mower (riding)	\$104 – \$311
Radio	\$8 – \$52
Roller blades	\$3 – \$16
Sewing machine	\$15 – \$88
Stereo	\$16 – \$78
Stuffed animal	\$0.50 – \$1
Tablet	\$25 – \$150
Tennis racket	\$2 – \$5
Typewriter	\$5 – \$26
Umbrella	\$2 – \$6
Vacuum cleaner	\$16 – \$67

Author's Comment: This list is compiled from the Salvation Army Donation Value Guide. It is presented as a general guideline and is not authoritative. Other valuation guides may be found on other charities' websites.

Note: No deduction is allowed for a charitable contribution of used clothing or household items unless the clothing or household item is in good condition or better. The IRS is authorized by regulation to deny a deduction for any contribution of clothing or a household item that has minimal monetary value, such as used socks and undergarments.

Planning Tip: Take a picture of all items donated. Keep the electronic pictures for proof the items were in good or better condition at the time they were donated.

Substantiation Requirements for Charitable Contributions (page 4-20)

To help substantiate a deduction for the fair market value of used items donated to charity, the taxpayer should make a list of each item donated on a separate sheet of paper along with the following information.

- Name and address of charity.
- Fair market value of each item at the time it was donated (see guide on this page).
- Date each item was donated to the charity.
- Date each donated item was originally purchased or acquired.
- Description of each item donated.
- Cost or other basis of each item donated.

Limitations on Donation of Property Which Has Increased In Value

Type of Property	Deduction Limited To
Ordinary income property: inventory, donor's creative work, and capital assets held less than one year.	Fair market value less amount of ordinary income or short-term capital gain amount if property had been sold.
Capital gain property: stocks, bonds, jewelry, coin or stamp collections, and cars and furniture used for personal purposes.	Fair market value of property.*

* For certain types of contributions, this may be further limited. For more information, see *Reductions to Fair Market Value* chart, page 4-17.

Medical Expenses

Cross References

- Schedule A (Form 1040), *Itemized Deductions*
- IRS Pub. 502, *Medical and Dental Expenses*
- IRS Pub. 554, *Tax Guide for Seniors*
- IRC §213, *Medical, dental, etc., expenses*

Related Topics

- Self-employed health insurance deduction, Tab 5
- Premium Tax Credit, page 11-13
- Health Benefits (IRC §105 and IRC §106), page 22-6
- Health Savings Accounts (HSAs) (IRC §223), page 22-6

Medical Expenses AGI Limit

Qualified medical expenses are deductible as itemized deductions on Schedule A (Form 1040) to the extent expenses exceed 7.5% of the taxpayer's adjusted gross income (AGI). This threshold applies to all taxpayers for both regular tax and AMT purposes.

Deductible Medical Expenses

Medical expenses are the costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and for the purpose of

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. Medical care expenses must be primarily to alleviate or prevent a physical or mental disability or illness, and do not include expenses merely beneficial to general health, such as vitamins or a vacation.

Deductible medical expenses. This list is not all-inclusive. See IRS Pub. 502, *Medical and Dental Expenses*.

- **Abortion.** Medical expenses for a legal abortion.
- **Acupuncture.** Medical expenses for acupuncture.
- **Alcoholism.** Treatment costs at a therapeutic center for alcohol addiction, including meals and lodging at the center during treatment. Also includes transportation to and from AA meetings, if attending meetings on medical advice. (Rev. Rul. 73-325)
- **Ambulance.** Amounts paid for ambulance service.
- **Artificial limb.** Medical expenses for an artificial limb.
- **Artificial teeth.** Medical expenses for artificial teeth.
- **Bandages.** The cost of medical supplies such as bandages, even without a prescription.
- **Birth control pills and condoms.** No prescription required. (Notice 2024-71 and Notice 2024-75)
- **Body scan.** Electronic body scan. (Rev. Rul. 2007-72)
- **Braces.** Dental expenses for braces.
- **Braille books and magazines.** The part of the cost that exceeds the regular printed edition of the book or magazine.
- **Breast pumps and supplies.** Lactation assistance, does not include excess bottles for storage. (Announcement 2011-14)
- **Breast reconstruction surgery.** Including breast prosthesis, following a mastectomy for cancer.
- **Capital expenses.** See *Capital Expenses Deductible as Medical Expenses*, page 4-5.
- **Cars.** See *Car specially equipped for medical reasons*, page 4-5.
- **Chiropractor.** Medical expenses paid to a chiropractor.
- **Christian Science practitioner.** Fees paid to Christian Science practitioners for medical care. (Rev. Rul. 63-91)
- **Contact lenses.** Including supplies required for using contact lenses, such as saline solution and enzyme cleaner.
- **Crutches.** Amounts paid to buy or rent crutches.
- **Dental treatment.** Including teeth cleaning, sealants, fluoride treatments, treatment to alleviate dental disease including X-rays, fillings, braces, extractions, dentures, and other dental ailments. Teeth whitening is not deductible.
- **Diagnostic devices.** Cost of devices used in diagnosing and treating illness and disease, such as a blood sugar test kit for a diabetic, even without a prescription.
- **Disabled dependent care expenses.** See *Dependents With Disabilities*, page 4-6.
- **DNA testing.** Genetic testing is considered a diagnostic medical procedure, however, if cost includes taxpayer's ancestry, this is not medical care and the cost must be allocated. (Ltr. Rul. 201933005)
- **Drug addiction.** Inpatient treatment costs at a therapeutic center for drug addiction, including meals and lodging at the center during treatment.
- **Drugs.** See *Medicines*, page 4-7.
- **Equipment.** See *Capital Expenses Deductible as Medical Expenses*, page 4-5.
- **Eye exam.** Amounts paid for eye examinations.
- **Eyeglasses.** Payment for eyeglasses and contact lenses needed for medical reasons. See *Contact lenses*, above.
- **Eye surgery.** Including laser eye surgery and radial keratotomy.
- **Fertility enhancement.** Such as in vitro fertilization (including temporary storage of eggs or sperm), and surgery to reverse prior surgery that prevented the person from having children.

- **Guide dog or other service animal.** Costs of buying, training, and maintaining (food, grooming, vet care) a guide dog or service animal to assist a visually impaired or hearing disabled person, or a person with other physical or mental disabilities.
- **Health institute.** Fees paid for treatment at a health institute only if the treatment is prescribed by a physician, and the physician issues a statement that the treatment is necessary to alleviate a physical or mental disability or illness.
- **Health Maintenance Organization (HMO).** These amounts are treated the same as medical insurance premiums.
- **Hearing aids.** Including the cost of batteries, repairs and maintenance needed to operate the hearing aids.
- **Home care.** See *Nursing Services—Nonprofessional*, page 4-7.
- **Home improvements.** See *Capital Expenses Deductible as Medical Expenses*, page 4-5.
- **Hospital services.** The cost of inpatient care at a hospital or similar institution, including meals and lodging.
- **Insulin.** See *Medicines*, page 4-7.
- **Insurance premiums.** See *Insurance Premiums*, page 4-5.
- **Insurance premiums for qualified long-term care contracts.** See *Qualified long-term care insurance contracts*, page 4-6.
- **Laboratory fees.** Amounts paid for laboratory fees.
- **Lead-based paint removal.** The cost of removing (but not the cost of repainting) lead-based paints from surfaces in the home to prevent a child who has or had lead poisoning from eating the paint. If, instead of removing the paint, the area is covered with wallboard or paneling, treat these as capital expenses. See *Capital Expenses Deductible as Medical Expenses*, page 4-5.
- **Legal fees.** Legal fees paid to authorize treatment for mental illness, but not management fees of a guardianship.
- **Lifetime care.** See *Lifetime Care Advance Payments*, page 4-6.
- **Lodging.** See *Lodging Expenses for Medical Care*, page 4-6.
- **Long-term care.** See *Long-Term Care*, page 4-6.
- **Meals.** Cost of meals at a hospital or similar institution is deductible if principal reason for being there is for medical care.
- **Medical conferences.** Admission and transportation to a medical conference if the conference concerns the chronic illness of the taxpayer, spouse, or dependent. The costs of the medical conference must be primarily for, and necessary to the medical care. Meals and lodging at the conference are not deductible.
- **Medicare Part A.** Taxpayers not covered under Social Security can voluntarily enroll in Medicare Part A. In this situation, a taxpayer can deduct premiums paid for Medicare Part A.
- **Medicare Part B.** Deduct premiums for Medicare Part B.
- **Medicare Part D.** Deduct premiums for Medicare Part D.
- **Medicines.** See *Medicines*, page 4-7.
- **Nursing home.** See *Nursing Home*, page 4-7.
- **Nursing services.** See *Nursing Services—Nonprofessional*, page 4-7.
- **Nutritional supplements and vitamins.** Deductible only if they are recommended by a medical practitioner as treatment for a specific medical condition diagnosed by a physician. Items taken to maintain ordinary good health are not deductible.
- **Operations.** Amounts paid for legal operations that are not for unnecessary cosmetic surgery. See *Cosmetic surgery*, page 4-4.
- **Optometrist.** Amounts paid for exams and lens fitting.
- **Osteopath.** Medical expenses paid to an osteopath.
- **Oxygen.** Oxygen and oxygen equipment to relieve breathing problems caused by a medical condition.
- **Personal protective equipment (PPE).** Amounts paid for PPE such as face masks, hand sanitizer, and sanitizing wipes, used for the primary purpose of preventing the spread of COVID-19 are deductible if not compensated for by insurance.
- **Physical examination.** Annual physical examination and diagnostic tests by a physician. The taxpayer does not need to be ill at the time of the examination.

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- **Pregnancy test kit.** Test to determine pregnancy.
- **Prepaid insurance premiums.** See *Insurance Premiums*, page 4-5.
- **Prescription drugs.** See *Medicines*, page 4-7.
- **Prosthesis.** Medical expenses for a prosthesis.
- **Psychiatric care.** Includes the cost of supporting a mentally ill dependent at a specially equipped medical center where the dependent receives medical care.
- **Psychoanalysis.** Payments for psychoanalysis are deductible, however, payments for psychoanalysis that is part of required training to be a psychoanalyst cannot be included. Expenses for marriage counseling are not deductible. (Rev. Rul. 75-319)
- **Psychologist.** Medical expenses paid to a psychologist.
- **Qualified long-term care services.** See *Qualified long-term care services*, page 4-6.
- **Self-initiated medical diagnostic tests.** Amount paid by a healthy individual for self-initiated medical diagnostic tests and similar procedures, even if no symptoms of illness exist and no physician's recommendation is obtained. (Rev. Rul. 2007-72)
- **Sex reassignment surgery and related hormone therapy.** Treatment of gender identity disorder disease. [O'Donnabhain, 134 T.C. No. 34 (2010)]
- **Special education.** See *Special Education*, page 4-7.
- **Sterilization.** Medical expenses for a legal sterilization.
- **Stop-smoking programs.** Do not include amounts paid for nonprescription drugs such as nicotine gum or patches. (Rev. Rul. 99-28)
- **Surgery.** See *Operations*, page 4-3.
- **Telephone.** The cost of special telephone equipment for the hearing or speech impaired, including repair costs.
- **Television.** The cost of an adapter or the cost of a specially equipped television that exceeds the cost of the same model regular television. (Rev. Rul. 80-340)
- **Therapy.** Costs of therapy received as medical treatment.
- **Transplants.** Medical expenses paid or received for an organ donor or possible organ donor, including transportation.
- **Transportation.** See *Medical Care Transportation*, page 4-7.
- **Travel.** Includes transportation to another city if the trip is primarily for, and essential to, receiving medical services. See *Lodging Expenses for Medical Care*, page 4-6.
- **Tutoring.** See *Tutoring*, page 4-7.
- **Vasectomy.** Medical expenses paid for a vasectomy.
- **Veterinary fees.** Only if incurred to maintain the health of a guide dog or other service animal so that it may perform its duties assisting a person with physical disabilities.
- **Vitamins.** Deductible only if recommended by
 - a medical practitioner as treatment for a specific medical condition diagnosed by a physician.

- **Weight-loss program.** See *Weight-Loss Program*, page 4-7.
- **Wheelchair.** Amounts paid for a wheelchair used for the relief of sickness or disability, including the cost of operating and maintaining the wheelchair.
- **Wig.** Purchased on advice of a physician for the mental health of a patient who lost all of his or her hair from disease.
- **X-ray.** Amounts paid for x-rays for medical reasons.

Nondeductible medical expenses. This list is not all-inclusive. See IRS Pub. 502, *Medical and Dental Expenses*.

- **Babysitting and childcare.** Do not include amounts paid for childcare, even if it enables the taxpayer, spouse, or dependent to get treatment.
- **Controlled substances.** Amounts paid for controlled substances (such as marijuana, laetrile, etc.) that are not legal under federal law, even if such substances are legalized by state law.
- **Cosmetic surgery.** Amounts paid for cosmetic surgery, unless the surgery is necessary to improve a deformity from a congenital abnormality, personal injury, or disfiguring disease.

- **Dancing lessons.** Dancing lessons, swimming lessons, etc., even if they are recommended by a doctor, if they are only for the improvement of general health.
- **Flexible spending account (FSA).** Do not include medical expenses reimbursed by an FSA if the contribution is on a pre-tax basis.
- **Funeral expenses.** Deductible only on the decedent's federal estate tax return. See *Funeral expenses*, page 21-32.
- **Health club dues.** Health club dues or amounts paid to improve one's general health or to relieve physical or mental discomfort not related to a particular medical condition.
- **Health reimbursement arrangement (HRA).** Do not include medical expenses reimbursed by an HRA, as it is funded solely by the employer.
- **Health savings account (HSA).** Expenses paid with tax-free distributions from an HSA or medical savings account (MSA).
- **Household help.** Household help is a personal nondeductible expense even if recommended by a doctor. Certain expenses providing nursing-type services may be deductible. See *Nursing Services—Nonprofessional*, page 4-7.
- **Illegal operations and treatments.** Even if prescribed by licensed or unlicensed practitioners.
- **Meals.** Meals that are not part of inpatient care are nondeductible.
- **Medicines and drugs from other countries.** See *Medicines*, page 4-7.
- **Nutritional supplements.** Deductible only if recommended by a medical practitioner as treatment for a specific medical condition diagnosed by a physician.
- **Over-the-counter (OTC) medicine.** Except for insulin, the cost of medicine purchased without a required prescription is not deductible. However, OTC medicines, menstrual care products, and condoms may be purchased using FSA and HSA funds. See *FSA Distributions*, page 30-6, and *HSA Distributions*, page 30-11.
- **Prepaid medical care.** Current payments for care to be provided substantially beyond the end of the year are not generally deductible.
- **Weight-loss program.** See *Weight-Loss Program*, page 4-7.

Timing of Medical Expenses

Past or current services. Medical expenses are deductible in the tax year paid, regardless of when the services were provided.

Payment Method	When Considered Paid
Check	Date check mailed or delivered
Credit card	Date charged to card (not when card balance is paid)
Phone or online	Date financial institution indicates as payment date

Future services. Payments for care to be provided substantially beyond the end of the year are not generally deductible. See *Lifetime Care Advance Payments*, page 4-6, and *Long-Term Care*, page 4-6.

Spouse or Dependent Medical Expenses

Deductible expenses include those incurred by the taxpayer, spouse, or dependent.

Spouse. The taxpayer must have been married to the spouse either at the time the spouse received the medical services or at the time the taxpayer paid the medical expenses.

Dependent. Medical expenses paid for a dependent are deductible if the person was a dependent either at the time the medical services were provided or paid for. A person generally qualifies as a dependent for purposes of the medical expense deduction if both of the following requirements are met.

- The person was a qualifying child or a qualifying relative, see *Dependency Tests for 2025*, Tab 3, and
- The person was a U.S. citizen or national or a resident of the United States, Canada, or Mexico.

Taxpayers can deduct medical expenses paid for an individual who would have been a dependent except that:

- He or she received gross income of \$5,200 or more in 2025,
- He or she filed a joint tax return for 2025, or
- The taxpayer, or spouse if filing jointly, could be claimed as a dependent on someone else's 2025 tax return.

Adopted child. If the taxpayer is a U.S. citizen or national and his or her adopted child lived with the taxpayer as a member of his or her household, that child does not have to be a U.S. citizen, national, or a resident of the United States, Canada, or Mexico.

Child of divorced or separated parents. A child can be treated as a dependent of both parents for medical purposes. Each parent deducts medical expenses he or she pays for the child, even if the other parent claims the child as a dependent. For this rule to apply, all of the following must be true.

- The child must be in the custody of one or both parents for more than half the year,
- The child receives over half of his or her support from the parents, and
- The parents are divorced or legally separated under a decree of divorce or separate maintenance, or are separated under a written separation agreement, or lived apart at all times during the last six months of the year.

This rule does not apply if the child's dependency is being claimed under a multiple support agreement. See *Multiple Support Agreements*, Tab 3.

Payments made by others. Taxpayers may be able to deduct medical expenses paid for on their behalf by someone else.

Court Case: The IRS denied the taxpayer's deduction for medical expenses paid for by her mother directly to the medical providers. The court allowed the deduction, stating the payments by the mother were made with donative intent. The court stated income tax treatment is not controlled by gift tax consequences. (*Lang*, T.C. Memo. 2010-286)

Married Filing Separately Medical Expenses

<i>MFS, Noncommunity Property State</i>	<ul style="list-style-type: none"> • Each spouse deducts only expenses actually paid. • Amounts paid out of joint accounts are deducted equally, unless payer can prove otherwise.
<i>MFS, Community Property State</i>	<ul style="list-style-type: none"> • Each spouse separately deducts amounts paid from separate funds. • Divide all other payments equally.

Decedent's Medical Expenses

Expenses that may be claimed on decedent's final return include:

- Medical expenses paid before death, including expenses for the decedent's spouse and dependents.
- Medical expenses paid by the estate for the decedent's care if:
 - The expenses are paid within one year of the day after the date of death.
 - The choice to claim estate-paid expenses on the final return is made by the surviving spouse or personal representative.
 - The decedent's final Form 1040 includes a statement that the expenses have not been, and will not be, claimed on the estate tax return.

See *Deductions—Final Form 1040*, page 21-10.

Survivors. A surviving taxpayer may claim medical expenses for a deceased spouse or dependent in the year paid, whether paid

before or after the decedent's death. The expenses are deductible if the decedent was the taxpayer's spouse or dependent at the time the medical service was provided, or at the time payment was made for the medical services.

Capital Expenses Deductible as Medical Expenses

The cost of home improvements and special equipment are deductible as medical expenses if their main purpose is medical care. The cost is deductible to the extent it does not increase the value of the home or other capital asset.

Example #1: Denny has a heart ailment. On his doctor's advice, he installed an elevator so that he does not have to climb stairs. The elevator cost \$8,000. An appraisal of his home shows that after installation, the elevator increased the value of his home by \$4,400. Denny can deduct \$3,600 of the home improvement cost as a medical expense.

Such costs must be reasonable to accommodate a home for a person with a disability. Costs for personal motives, such as for architectural or aesthetic reasons, are not medical expenses.

Operation and upkeep. Expenses for the operation and upkeep of a capital asset qualify for a deduction if the main reason for the cost is medical care. This rule applies even if none, or only a portion, of the original cost of the capital asset qualifies as a medical expense.

Example #2: Assume the same facts as Example #1, above, except the elevator increased the value of the home by \$8,000. None of the installation cost is deductible as a medical expense. However, because it was for the medical care of Denny, the cost of electricity to operate it and maintenance costs are deductible as medical expenses.

Improvements to a home rented by the taxpayer. Amounts paid to buy and install special plumbing fixtures for a person with a disability, mainly for medical reasons, in a rented house are deductible as medical expenses.

Car specially equipped for medical reasons. The cost of special hand controls and other special equipment installed in a car for use by a person with a disability is deductible as a medical expense. The difference between the cost of a regular car and one specially designed to hold a wheelchair is deductible as a medical expense. However, the cost of operating the specially equipped car is not deductible, except see *Medical Care Transportation*, page 4-7.

Insurance Premiums

Deduct insurance premiums paid for policies that cover medical care. Medical care policies can provide payment for treatment that includes the following.

- Hospitalization, surgical services, and X-rays.
- Prescription drugs and insulin.
- Dental care.
- Replacement of lost or damaged contact lenses.
- Long-term care, subject to certain limitations. See *Qualified long-term care insurance contracts*, page 4-6.

For policies that provide payments for other than medical care, deduct the premiums for the medical care part of the policy if the charge for the medical part is reasonable. The cost of the medical portion must be separately stated in the insurance contract or given to the taxpayer in a separate statement.

Nondeductible premiums. Nondeductible insurance premiums include life insurance policies, loss of earnings policies, loss of life, limb, sight, etc. policies, guaranteed payment policies if hospitalized for sickness or injury, the medical insurance coverage part of car insurance, or health or long-term care insurance paid with tax-free retirement distributions. Government taxes, such as Medicare taxes, are not insurance premiums.

Premium Tax Credit. A taxpayer cannot deduct premiums paid by or through the Premium Tax Credit. If the taxpayer was eligible for the Premium Tax Credit, complete Form 8962, *Premium Tax Credit (PTC)*, before completing Schedule A (Form 1040). See *Premium Tax Credit*, page 11-13.

Example: Owen is under age 65 and unmarried. The annual cost of his health insurance is \$9,000. Advance credit payments of \$4,200 were made to his insurance company and he paid \$4,800 directly to the company. On his tax return, he was allowed a credit of only \$3,600 and had to repay \$600 of his advance premium tax credit payments. He can enter \$5,400 (\$4,800 + \$600) as a medical expense on line 1, Schedule A (Form 1040).

Employer-sponsored health insurance plan. Do not deduct any insurance premiums paid by an employer-sponsored health insurance plan unless the premiums are included in box 1 of the taxpayer's (or spouse's) Form W-2.

Self-employed health insurance. Reduce the amount deductible on Schedule A (Form 1040) by any self-employed health insurance deduction claimed on line 17, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*.

Prepaid insurance premiums. Insurance premiums paid by a taxpayer under age 65 for coverage of the taxpayer, his or her spouse, and his or her dependents, after the taxpayer reaches age 65 are medical care expenses in the year paid if they are payable in equal yearly installments, or more often, and are payable for at least 10 years, or until the taxpayer reaches age 65 (but not for less than five years).

Lifetime Care Advance Payments

Deductible medical expenses include a part of a life-care fee or founder's fee paid either monthly or as a lump sum under an agreement with a retirement home. The deductible part is the amount properly allocable to medical care. The agreement must require that a specific fee is paid as a condition for the home's promise to provide lifetime care that includes medical care.

Dependents with disabilities. Deductible medical expenses include advance payments to a private institution for lifetime care, treatment, and training of a child who is physically or mentally impaired, upon the taxpayer's death or when the taxpayer becomes unable to provide care. The payments must be a condition for the institution's future acceptance of the child and must not be refundable.

Child and dependent care expenses. Some expenses may qualify as either deductible medical expenses or work-related expenses for purposes of claiming the Child and Dependent Care Credit. A taxpayer can choose to apply the expenses either way as long as the same expense is not used to claim both a credit and a medical expense deduction. See *Child and Dependent Care Expenses*, page 11-4.

Lodging Expenses for Medical Care

The cost of meals and lodging at a hospital or similar institution is deductible if the principal reason for being there is to receive medical care. See *Nursing Home*, page 4-7.

Lodging not provided in a hospital or similar institution (such as in a hotel) is deductible up to \$50 per night per person, including someone traveling with the person receiving medical care. No deduction is allowed for meals. Deductible lodging expenses must meet all the following requirements.

- The lodging is primarily for and essential to medical care,
- The medical care is provided by a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital,
- The lodging is not lavish or extravagant under the circumstances, and

- There is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

Long-Term Care

Amounts paid for qualified long-term care expenses are deductible as medical expenses.

Qualified long-term care services. Qualified long-term care services are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, rehabilitative services, and maintenance and personal care services that are required by an individual who is chronically ill, and are provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Chronically ill. An individual is chronically ill if, within the previous 12 months a licensed health care practitioner has certified that the individual meets either of the following descriptions.

- He or she is unable to perform at least two activities of daily living (eating, toileting, transferring, bathing, dressing, and continence) without substantial assistance from another individual for at least 90 days, due to a loss of functional capacity.
- He or she requires substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

Qualified long-term care insurance contracts. Qualified long-term care insurance contracts provide only coverage for qualified long-term care services. The contract must meet all of the following requirements.

- It must be guaranteed renewable,
- It must not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed,
- It must provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract must be used only to reduce future premiums or increase future benefits, and
- It must not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

Long-Term Care Premium Limits by Age — 2025

40 and under	41–50	51–60	61–70	71 and over
\$480	\$900	\$1,800	\$4,810	\$6,020

For prior-year amounts, see *Medical Expenses* chart, page 4-1.

Taxable long-term care payments. Generally, payments received under a long-term care insurance contract are excluded from income. If payments were received on a per diem or other periodic basis, the taxpayer must file Form 8853, *Archer MSAs and Long-Term Care Insurance Contracts*.

Per diem payments. Per diem payments are payments of a fixed amount made on a periodic basis without regard to actual expenses incurred. Any amount paid in excess of the per diem limit is taxable. The per diem limit for 2025 is \$420. Box 3 of Form 1099-LTC, *Long-Term Care and Accelerated Death Benefits*, should indicate whether payments were per diem payments.

Form 1099-LTC, Long-Term Care and Accelerated Death Benefits. Used by insurance companies and other payers to report benefits paid to, or on behalf of, individual policy holders.

- **Box 1.** Long-term care benefits paid to an individual on a per diem or reimbursed basis. Complete Form 8853 to determine taxable or excludable amount.
- **Box 2.** Accelerated death benefits paid to an individual certified as terminally or chronically ill under a life insurance contract. Such payments, including the sale of a contract under a viatical settlement, are tax free. [IRC §101(g)]

Medicines

The cost of prescribed medicines is deductible. Nonprescription drugs and medicines are not deductible.

Insulin exception. The cost of insulin is deductible whether or not it is prescribed by a doctor.

Imported drugs. Imported prescription drugs can be deducted only if imported legally. The cost of prescribed drugs purchased and consumed in another country are deductible only if the drug is legal in both the other country and the United States.

Nursing Home

The cost of living in a nursing home, home for the aged, or similar institution, including meals and lodging, is deductible if a principal reason for being there is to get medical care. If the taxpayer is in a facility for personal reasons, only the part of the cost that is for medical or nursing care is deductible.

Nursing Services—Nonprofessional

Nursing services do not have to be performed by a nurse as long as the services are of a kind performed by a nurse. Nursing services include giving medication, changing dressings, bathing, and grooming. The services can be provided in the taxpayer's home or another care facility.

The cost of nursing services can include wages and employment taxes paid to hire a nurse, plus food and lodging provided for the nurse to live with the taxpayer being cared for.

Personal and household services performed by a nurse are not deductible. Amounts paid to a nurse must be divided between the time spent on nondeductible services and the time spent on nursing services.

Exceptions:

- Personal and household services may be deductible as qualified long-term care services.
- Household services may qualify for the Child and Dependent Care Credit. See *Child and Dependent Care Expenses*, page 11-4.

Special Education

Deductible medical expenses include the cost (tuition, meals, and lodging) of attending a special education school if the primary reason is to help a child overcome learning disabilities. Special education includes teaching Braille, lip reading, or giving remedial language training to correct a condition caused by a birth defect.

Do not include the cost of sending a child with behavioral problems to a school where the course of study and the disciplinary methods have a beneficial effect on the child's attitude if the availability of medical care in the school is not a principal reason for sending the student there.

Tutoring. If a doctor recommends tutoring for a child by a teacher who is specially trained and qualified to work with children who have learning disabilities caused by mental or physical impairments, including nervous system disorders, the tutoring fees qualify as deductible medical expenses.

Medical Care Transportation

Amounts paid for transportation primarily for, and essential to, medical care are deductible. This includes the following.

- 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 nursing treatment required by a patient traveling for medical care and unable to travel alone.
- Transportation expenses for regular visits to see a mentally ill dependent, if these visits are recommended as a part of treatment.

Auto expenses. Out-of-pocket expenses, such as gas and oil, are deductible when the auto is used for medical reasons. Depreciation, insurance, general repairs, and maintenance are not deductible. Rather than keeping track of actual costs, the taxpayer may use the standard mileage rate. Parking and tolls can be deducted in addition to either the actual cost of gas and oil or the standard mileage rate.

Medical standard mileage rate. The medical standard mileage rate for 2025 is 21¢ per mile. For prior-year rates, see *Standard Mileage Rates* chart, page 4-1.

Nondeductible transportation. Do not include in medical expenses the cost of transportation in the following situations.

- Going to and from work, even if the medical condition requires an unusual means of transport. (*Alderman*, T.C. Summary 2004-74)
- Travel for purely personal reasons to another city for an operation or other medical care.
- Travel that is merely for the general improvement of the taxpayer's health.
- The costs of operating a specially equipped car for other than medical reasons.

Weight-Loss Program

Weight-loss programs are deductible medical expenses as treatment for a specific disease (obesity, hypertension, or heart disease) diagnosed by a physician.

Deductible	Nondeductible
<ul style="list-style-type: none">• Fees for membership in a weight reduction group and attendance at periodic meetings.• Separate fees charged for weight-loss activities at a gym, club, or spa.• Food costs that exceed normal diet if:<ul style="list-style-type: none">– The food alleviates or treats an illness,– The food does not satisfy normal nutritional needs, and– The need is substantiated by a physician.	<ul style="list-style-type: none">• Fees to participate in a weight reduction program to improve appearance, general health, or sense of well-being.• Membership dues in a gym, health club, or spa.• Costs of food that are substitutes for normally consumed foods that satisfy nutritional requirements, such as:<ul style="list-style-type: none">– Reduced calorie beverages.– Reduced calorie diet foods.– Reduced calorie meal replacements.– Nutritional supplements.

Reimbursed Medical Expenses

Medical expenses that are reimbursed by insurance, Medicare, MSAs, HSAs, HRAs, or other sources are not deductible.

- Qualified medical expenses that exceed reimbursements are deductible. Reduce total medical expenses paid by total reimbursements received during the year.
- Medical reimbursements are generally not included in income.

Exception: Reimbursements that exceed medical expenses are taxable to the extent the reimbursement was provided on a pre-tax basis. Report the taxable portion on line 8z, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*.

Reimbursement in later year. If a reimbursement is received by the taxpayer in a later year for medical expenses deducted in an earlier year, the reimbursement is taxable to the extent the medical expense was deductible in the earlier year. Report the taxable portion on line 8z, Schedule 1 (Form 1040).

Example: Ian paid \$500 in medical expenses in December 2024. He submitted the bills to insurance and received a reimbursement check of \$500 in January 2025. Since the \$500 in medical expenses was less than 7.5% of his AGI, none of the expenses were deductible on his 2024 return. Therefore, none of the reimbursement received in 2025 is taxable.

For more information about recoveries, see *Recoveries*, Tab 3.

Damages for personal injuries. Compensation or settlement awards (including workers' compensation) received on account of personal injuries or sickness are not included in taxable income, except for the amount of the settlement that represents medical expenses that were deducted in a previous year. See *Reimbursement in later year*, page 4-7.

If a portion of the settlement is for future medical expenses, then any deduction for the future medical expenses must first be reduced by the portion of the settlement received that was for future medical expenses.

Taxes Paid

Cross References

- Schedule A (Form 1040), *Itemized Deductions*
- IRS Pub. 530, *Tax Information for Homeowners*
- IRC §164, *Taxes*
- Notice 2019-12

Related Topics

- Taxes and licenses, Tab 5
- Foreign Tax Credit, page 11-10
- Alternative Minimum Tax, page 14-2

Schedule A (Form 1040) Taxes

Deductible	Nondeductible
<ul style="list-style-type: none"> • State and local income taxes, or state and local general sales taxes.¹ • State and local real estate taxes.¹ • State and local personal property taxes.¹ • Income tax paid to a foreign country or U.S. possession. • Generation skipping transfer (GST) tax imposed on certain income distributions. 	<ul style="list-style-type: none"> • Federal income and most excise taxes. • Social Security, Medicare, FUTA, and RRTA taxes. • Customs duties. • Federal estate or gift taxes.² • State or local gasoline taxes. • Car inspection fees. • Special assessments for improvements to taxpayer's property. • Tax paid for someone else. • License fees, such as dog license, a driver's license, or a marriage license. • Foreign personal or real property taxes.

¹ See *State and Local Tax (SALT) Deduction Limitation*, next column.

² **Exception:** Federal estate tax on income in respect of a decedent (IRD) is deductible as an other itemized deduction on line 16, Schedule A.

Election to Deduct Income Tax or Sales Tax

A taxpayer can elect to deduct state and local income taxes or state and local general sales tax, but not both. Make the election by claiming the deduction on line 5a, Schedule A (Form 1040). The taxpayer must check the box if electing general sales taxes.

State and Local Income Taxes

State and local income tax. The following are included:

- Withholding reported on 2025 Forms W-2, W-2G, 1099-G, 1099-R, 1099-NEC, and 1099-MISC.
- Taxes paid in 2025 for a prior year, such as the balance due paid when filing the 2024 state income tax return, or a balance due when amending a prior year state income tax return.
- State and local estimated tax payments made during 2025, including the prior year refund credited to 2025, and prior year estimated payments made during 2025.
- Mandatory contributions made to:
 - The California, New Jersey, or New York Nonoccupational Disability Benefit Fund, Rhode Island Temporary Disability Benefit Fund, or Washington State Supplemental Workmen's Compensation Fund.
 - The Alaska, California, New Jersey, or Pennsylvania state unemployment fund.

- State family leave programs, such as the New Jersey Family Leave Insurance (FLI) program and the California Paid Family Leave program.

Tax refunds. Report state and local income tax refunds on line 1, Schedule 1 (Form 1040), to the extent a tax benefit was received. Do not reduce the state and local income tax deduction by amounts received or expected in a future year.

State and Local General Sales Taxes

Determine the general sales tax deduction using either actual expenses or the optional sales tax tables. Under either method, do not include sales taxes paid on items used in a trade or business.

Actual expenses. 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.

- 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 sales tax on a motor vehicle was paid at a higher rate than the general sales tax rate, include no more than the general sales tax rate. Motor vehicles include cars, motorcycles, motor homes, RVs, SUVs, trucks, vans, and off-road vehicles.

Note: Taxpayers must keep receipts showing sales taxes paid.

Optional sales tax tables. Add to this amount:

- Local general sales taxes if imposed by the taxpayer's locality.
- Sales taxes paid on motor vehicles as described above.
- Sales taxes paid on aircraft, boats, homes (including mobile and prefabricated homes), and materials used to build a home, but only if the tax is imposed at the general sales tax rate. (Notice 2005-31)

Using the sales tax tables. Income equals AGI plus:

- Nontaxable income such as tax-exempt interest, veterans' benefits, nontaxable combat pay, public assistance, or workers' compensation.
- Nontaxable portions of annuity, IRA, or pension distributions (but not rollovers), and of Social Security or Railroad Retirement benefits.

Family size refers to the number of dependents claimed plus taxpayer (and spouse, if filing jointly).

Married Filing Separately (MFS). When MFS and both spouses elect to deduct sales tax, if one spouse elects to use the optional sales tax tables, the other spouse must also use the tables to determine the deduction.

Multiple states. Prorate sales tax table amounts by the number of days the taxpayer lived in each state during the year.

State and Local Tax (SALT) Deduction Limitation

OBBA Effective for tax years beginning after 2024, the deduction limitation for state and local taxes was increased and made permanent. For 2025, the applicable deduction limitation amount is \$40,000 (\$20,000 MFS).

For any tax year beginning before 2030, the deduction limitation is reduced by 30% of the excess of the taxpayer's modified adjusted gross income (AGI) over a threshold amount. The threshold amount for 2025 is \$500,000 (\$250,000 MFS). The limitation cannot be less than \$10,000.

Modified AGI. Modified AGI means AGI increased by the foreign earned income exclusion and the exclusion of income from sources within Guam, American Samoa, the Northern Mariana Islands, and Puerto Rico.

Planning Tip: If the SALT deduction is limited, consider taking the general sales tax deduction instead of state and local income taxes. This could limit the amount of state tax refund that is taxable the following year.

Safe harbor. A safe harbor is available for taxpayers who must reduce their federal charitable contribution deduction due to receiving a state or local tax credit for that contribution. See *State or local credit for charitable contribution limit*, page 4-19.

To the extent the taxpayer applies the credit to this or a prior year's state or local tax liability, include the disallowed amount on line 5a, 5b, or 5c, Schedule A (Form 1040), whichever is appropriate. To the extent the taxpayer applies a portion of the credit to offset state or local tax liability in a subsequent year (as permitted by law), treat this amount as state or local tax paid in the year the credit is applied. (Notice 2019-12)

Author's Comment: A number of states have passed legislation allowing partnerships and S corporations to pay a tax on behalf of their partners or shareholders to offset the SALT limitation. The IRS is in the process of drafting proposed regulations to clarify that these taxes are allowed as a deduction by the partnership or S corporation in computing its non-separately stated taxable income or loss for the taxable year of payment. (Notice 2020-75)

Real Estate Taxes

Real estate taxes are deductible as itemized deductions only if the taxpayer owns the real estate and the taxes are based on the assessed value of the property. If a mortgage company pays the taxes from an escrow account, deduct the taxes actually paid on behalf of the taxpayer, not the amount the taxpayer paid into escrow. Unlike mortgage interest, the real estate tax deduction is not limited to the first two homes owned by the taxpayer.

Author's Comment: If the taxpayer received payments from the Homeowner Assistance Fund (HAF), Rev. Proc. 2021-47 offers a safe harbor method to compute his or her itemized deductions for mortgage interest and real estate taxes. See *Safe harbor deduction computation*, page 4-11.

Foreign real estate taxes. Foreign taxes paid on real estate are not deductible.

Prepayment of property taxes. Only taxes paid in 2025 and assessed prior to 2026 can be deducted in 2025. State or local law determines whether and when a property tax is assessed, which is generally when the taxpayer becomes liable for the property tax imposed.

Charges for services. Itemized charges for trash collection, water, sewer, etc. are not deductible as real estate taxes.

Sale or purchase of a house. The deduction for real estate tax paid must be adjusted for the time period the taxpayer actually owns the property, even if the seller or buyer actually paid different amounts.

- Seller: Treated as paying the taxes up to day before the sale.
- Buyer: Treated as paying the taxes beginning with date of sale.

Example #1: Joseph paid \$2,400 for his 2025 real estate taxes on May 15, 2025 (\$200 per month). Joseph sold his home on June 1, 2025 to Jim, and the closing company gave Joseph a \$1,400 credit for taxes paid for the period June 1, 2025 to December 31, 2025. Joseph can deduct \$1,000 for taxes paid on his old house (\$2,400 paid minus \$1,400 credit shown on his closing statement).

Example #2: Assume the same facts as Example #1, except that Joseph did not receive a credit on his closing statement for the period after the sale. Joseph agreed to pay the entire year in order to encourage Jim to purchase his property. Joseph is allowed to deduct only \$1,000

for taxes attributed to the time he owned the property. Jim is allowed to deduct the \$1,400 attributed to the time he owned the property even though Joseph is the one who actually paid the taxes. Joseph reduces the amount realized on the sale of his home by the \$1,400, and Jim reduces the cost basis of the home he purchased by \$1,400.

Delinquent taxes. If the buyer pays delinquent taxes that were imposed on the seller for an earlier year, the buyer must add the taxes paid to basis rather than deduct them.

Special Assessment Tax Treatment

Assessment	Tax Treatment	Example
Improvement assessment	<ul style="list-style-type: none"> • Tend to increase the value of the property. • Not deductible. Add to basis. 	Assessment to build a new sidewalk.
Maintenance assessment	<ul style="list-style-type: none"> • Maintain existing public facilities already in service. • Deductible as real estate taxes. 	Assessment to repair an existing sidewalk.
Interest charges	<ul style="list-style-type: none"> • Deductible as real estate taxes if charged on a deductible assessment. [Reg. §1.164-4(b)(1)] • Not deductible on the late payment of real estate taxes. 	Interest charged on unpaid portion of assessment.

Real Estate Tax Refunds and Rebates

Refund Received for:	Tax Treatment
Taxes paid during the year	Reduce deduction on Schedule A (Form 1040).
Taxes paid in an earlier year	Include as income on line 8z, Schedule 1 (Form 1040), <i>Additional Income and Adjustments to Income</i> , but only to the extent a tax benefit was received for the deduction in the earlier year.

Cooperatives. An owner in a cooperative apartment owns shares of stock in a corporation that owns or leases housing facilities. The owner can deduct his or her share of the corporation's deductible real estate taxes if the corporation meets the following conditions.

- The corporation has only one class of stock outstanding.
- Each stockholder, because of ownership of stock, can live in a dwelling owned or leased by the corporation.
- No stockholder can receive any distribution of capital, except in liquidation of the corporation.
- During the entire tax year, at least 80% of the corporation's gross income was paid by the tenant-stockholders, at least 80% of the total square footage of the property is available for use by the tenant-stockholders and, at least 90% of the expenditures paid or incurred by the corporation were use for the acquisition, construction, management, maintenance, or care of the corporation's property for the benefit of the tenant-stockholders.

The tenant-stockholder's share of real estate taxes is based on the ratio of the stockholder's number of shares divided by the total shares outstanding. The corporation will generally inform the tenant-shareholder of his or her share of the tax.

Personal Property Taxes

Personal property taxes are deductible if based on value alone and are charged on a yearly basis.

Example: Jesse paid \$99 for the registration of his car. \$64 of the fee was based on the car's value, and \$35 was based on its weight. His personal property tax deduction is limited to \$64.

Foreign Income Taxes

Taxpayers can choose to deduct foreign income taxes paid on line 6, Schedule A (Form 1040), or take a tax credit on line 1, Schedule 3 (Form 1040), *Additional Credits and Payments*. See *Foreign Tax Credit*, page 11-10.

Interest Paid

Cross References

- Schedule A (Form 1040), *Itemized Deductions*
- Form 1098, *Mortgage Interest Statement*
- Form 4952, *Investment Interest Expense Deduction*
- IRS Pub. 550, *Investment Income and Expenses*
- IRS Pub. 936, *Home Mortgage Interest Deduction*
- IRC §163, *Interest*

Related Topics

- Business Use of Home, Tab 5
- Investment Income, Tab 6
- Interest on Rental—Second Home, page 7-6
- Mortgage Interest Credit, page 11-12

Interest Expense

Interest is an amount paid for the use of borrowed money. To deduct interest paid, the taxpayer must be legally liable for the debt. A true debtor-creditor relationship must exist. See *Legal Liability to Make Mortgage Payments*, page 4-11.

How interest expense is treated depends on how the loan proceeds were used.

Where to Deduct Interest Expense

Type of Debt	Deduct On	Page Reference
Business property	Schedule C, E, or F (Form 1040)	Tab 5
Investment debt	Schedule A (Form 1040)	page 4-13
Personal debt	Not deductible	n/a
Qualified home	Schedule A (Form 1040)	page 4-11
Rental property	Schedule E (Form 1040)	page 7-4
Student loan	Line 21, Schedule 1 (Form 1040)	page 12-8

Personal interest. Personal interest is not deductible. Personal interest includes personal-use loans for automobile debt, credit card debt, and installment debt.

Exception: See *Vehicle loan interest deduction*, Tab 3.

Tax-exempt investment debt. Investment interest on debt used to purchase or carry tax-exempt investments, such as municipal bonds, is not deductible.

Home Mortgage Interest

Home mortgage interest is any interest paid on a loan secured by the taxpayer's qualified home. The loan may be a mortgage on the original purchase, or a second mortgage. See *Qualified Home—Mortgage Interest*, page 4-11.

Conditions to deduct home mortgage interest. The following conditions must be met to deduct home mortgage interest.

- The taxpayer must itemize deductions on Schedule A (Form 1040),
- The mortgage must be a secured debt on a qualified home in which the taxpayer has an ownership interest, and
- Both the lender and the borrower must intend that the loan be repaid.

Author's Comment: If the taxpayer received payments from the Homeowner Assistance Fund (HAF), Rev. Proc. 2021-47 offers a safe harbor method to compute his or her itemized deductions for mortgage interest and real estate taxes.

Deductible Mortgage Interest Amount

The deductible amount depends on the date of the mortgage, the amount of the mortgage, and how the taxpayer uses the proceeds.

Deductible Home Mortgage Interest

Type of Debt	Characteristics	2025 Annual Limit ¹
Grandfathered Debt	• Mortgage taken out on or before October 13, 1987.	• No limit. Interest is fully deductible regardless of how loan proceeds are used.
Acquisition Debt After October 13, 1987 and before December 16, 2017 ²	• Proceeds used to buy, build, or substantially improve main or second home.	• Combined acquisition debt on main home and second home is limited to \$1 million (\$500,000 MFS). • Limit is reduced by grandfathered debt. • Limit applies on a per-taxpayer basis for unmarried taxpayers.
Acquisition Debt After December 15, 2017	• Proceeds used to buy, build, or substantially improve main home or second home.	• Combined acquisition debt on main home and second home is limited to \$750,000 (\$375,000 MFS). • Limited to cost of home plus cost of substantial improvements. • Limit is reduced by grandfathered debt. • Limit applies on a per-taxpayer basis for unmarried taxpayers.
Home Equity Debt	• Home equity loan interest is not deductible unless used to buy, build, or substantially improve the home that secures the loan.	• Combined acquisition debt and home equity debt on main and second home limited to applicable acquisition debt limit. • Both loans must secure the same home. • Home equity loan interest not deductible if used for personal expenses.
Refinanced Debt	• Secured debt used to refinance home acquisition debt is treated as home acquisition debt. • Refinanced grandfathered debt up to the balance of the old debt remains grandfathered debt for the remaining term of the debt that was refinanced.	• The new debt will qualify only up to the balance of the old mortgage principal just before refinancing. • The limit that applies depends on the original acquisition debt date. • Interest on amounts over the limit is generally treated as personal interest and is not deductible. If the proceeds of the loan were used for investment, business, or other deductible purposes, the interest may be deductible. • Any additional debt not used to buy, build, or substantially improve a qualified home is not acquisition debt and is not deductible.

¹ [Reserved.]

² **Exception:** Limit applies to binding written contracts entered into before December 15, 2017, to close on the purchase of a principal residence before January 1, 2018, and actually purchased before April 1, 2018.

Example: In January 2025, Max takes out a \$500,000 mortgage to purchase a main home with a FMV of \$800,000. In February 2025, Max takes out a \$250,000 home equity loan to put an addition on the main home. Both loans are secured by the main home and the total does not exceed the cost of the home. Because the total amount of both loans does not exceed \$750,000, all of the interest paid on the loans is deductible. However, if Max used the home equity loan proceeds for personal expenses or to purchase a vacation home, then the interest on the home equity loan would not be deductible.

Secured debt. A secured debt is one in which the taxpayer has put the home up for collateral. A debt is not secured by the taxpayer's home if it is secured solely because of a lien on his or her general assets or if it attaches to the property without the taxpayer's consent (e.g., mechanic's lien or judgement lien).

Wraparound mortgage. A wraparound mortgage is not a secured debt unless it is recorded or otherwise perfected under state law.

Choice to treat the debt as not secured by the home. The taxpayer can elect to treat any debt secured by a qualified home as not secured debt. See *Election to Treat Home Mortgage Interest as Not Secured by the Home*, below.

Qualified Home—Mortgage Interest

A qualified home is the taxpayer's main home or a second home. A home includes a house, condominium, cooperative, mobile home, house trailer, boat, or similar property that has sleeping, cooking, and toilet facilities.

Main home. A main home is where the taxpayer usually lives. There can be only one main home at any one time.

Second home not rented out. A second home that is not held out for rent or resale to others at any time during the year may be a qualified home. The taxpayer does not have to use the home during the year.

Second home rented out. If the taxpayer has a second home that is rented out to others part of the year, the taxpayer must also use it for personal purposes more than 14 days or more than 10% of the number of days that the home is rented out at fair rental value. If the taxpayer does not use the home long enough, it is considered rental property and not a second home. See *Allocating Income and Expenses*, page 7-5.

More than one second home. If the taxpayer has more than one second home, treat only one as the qualified second home.

Multiple uses of home. The only part of the home that is considered a qualified home is the part used for residential living. If part of the home is used for other purposes, such as a home office, the use of the home must be allocated. See *Business Use of Home*, page 5-13.

Cooperatives. The cooperative should give the tenant-stockholder a Form 1098, *Mortgage Interest Statement*, showing his or her share of the interest. Reduce the deduction by any patronage dividend received. See *Cooperatives*, page 4-9.

Timeshare. A home owned under a timeshare arrangement can be treated as a qualified home if it meets all the requirements.

Unmarried taxpayers. The indebtedness limitations apply on a per-taxpayer basis rather than a per-residence limit. (*Voss and Sophy*, 9th Cir., August 7, 2015)

Election to Treat Mortgage Interest as Not Secured by the Home

10T election. A taxpayer can elect to treat any debt secured by his or her qualified home as not secured by the home. A taxpayer may want to treat a debt as not secured by the home if the interest on that debt is fully deductible (for example, as a business expense) whether or not it qualifies as home mortgage interest. This may allow the taxpayer, if the acquisition debt limits apply, more of a deduction for interest on other debts that are deductible only as home mortgage interest. The election must apply to the entire indebtedness and is made by deducting the interest on the applicable Form or Schedule. This treatment applies for the initial year of election and all later tax years and may not be revoked without IRS consent. Late elections have been permitted. [Reg. §1.163-10T(o)(5)]

Example: Jan took out a home equity loan to buy equipment for her business. She does not itemize her deductions on Schedule A (Form 1040). If Jan elects to treat the entire debt as not secured by her home and can trace the loan proceeds to her business, she can deduct the interest paid as a business expense.

Legal Liability to Make Mortgage Payments

Generally, a taxpayer must be legally liable for the loan to deduct interest on a home mortgage.

Equitable owner. Payments made on a loan in which the taxpayer is not directly liable are deductible if the taxpayer is the legal or equitable owner. A taxpayer may become an equitable owner if he or she assumes the benefits and burdens of ownership. [Reg. §1.163-1(b)]

Court Case: The taxpayer entered into a verbal agreement with his mother, who owned the property, and siblings to pay the mortgage loan and property taxes with the understanding these payments would increase his equity interest in the home. The IRS disallowed the deduction for mortgage interest. The court allowed the deductions, stating the taxpayer bore a substantial risk of loss and was responsible for maintaining the property. The taxpayer provided the court with convincing evidence that he was an equitable owner in the property. (*Phan*, T.C. Summary 2015-1)

Form 1098, Mortgage Interest Statement

Was Form 1098 issued in the taxpayer's Social Security Number?

Yes	No
<ul style="list-style-type: none">Report deductible mortgage interest on line 8a, Schedule A (Form 1040).Check the box beside line 8a if the taxpayer did not use all of the home mortgage loans to buy, build, or improve the home.Attach an explanatory statement if the deductible amount and the amount reported on line 8a are not the same. If more than one person paid deductible mortgage interest (other than a spouse filing jointly), include amounts paid by each party on the statement.	<ul style="list-style-type: none">Report deductible mortgage interest on line 8b, Schedule A (Form 1040).Include the name, identifying number, and address of the interest recipient in the space provided next to line 8b.If another taxpayer (other than a spouse filing jointly) received Form 1098 for mortgage interest paid by the taxpayer, and for which the taxpayer is liable, attach a statement showing the name and address of that person.

Prepaid interest on Form 1098. If the taxpayer prepaid interest in 2025 that accrues in full by January 15, 2026, this prepaid interest may be included in box 1, Form 1098. However, the prepaid amount for January 2026 is not deductible in 2025. This rule does not apply if the prepaid interest is deductible as points. See *Points and Loan Origination Fees*, page 4-12.

Form 1098-MA, Mortgage Assistance Payments

Form 1098-MA reports mortgage assistance payments made by the state from the HFA Hardest Hit Fund.

- Assistance received under these programs is tax free.
- Form 1098-MA reports the amount of assistance received, not the amount of interest paid. Interest is still reported on Form 1098.

Safe harbor deduction computation. For tax years 2021 through 2025, a homeowner may deduct as qualified mortgage interest or qualified real estate taxes, the lesser of:

- The sum of all payments the homeowner actually makes from the homeowner's own source during the tax year to the mortgage servicer, or
- The sum of amounts shown on Form 1098, *Mortgage Interest Statement*, for qualified housing payment expenses.

HAF money paid directly to a mortgage provider on behalf of a homeowner should not be included on the Form 1098. (Rev. Proc. 2021-47)

Reverse Mortgage

A reverse mortgage, also called a home equity conversion mortgage, allows an individual to use home equity to generate monthly income, a lump-sum payment, or line of credit. Payments to the homeowner are treated as loan advances, not income, and are not taxable. Depending on the mortgage terms, no repayment is due until the home is sold, or the owner dies, reaches a specified age, or ceases to live in the property for a specified period of time. Any interest accrued on a reverse mortgage is considered home equity debt and is not deductible.

Example: Louise owns her home, worth \$175,000, outright. She takes out a reverse mortgage that will pay her \$500 per month. The annual income of \$6,000 is not taxable to Louise. Interest on the reverse mortgage accumulates, but is not deductible during the time Louise is receiving payments. After several years, Louise sells the home. The accumulated interest is paid to the lending institution from the sale proceeds and is not deductible.

Points and Loan Origination Fees

Terms such as points, loan origination fees, maximum loan charges, loan discount, loan buy down, or discount points refer to certain charges paid to obtain a home mortgage. Points are generally paid directly to the lender at closing in exchange for a lower interest rate. Each point charged to obtain a loan is 1% of the loan amount. For example, 2.5 points charged on a \$100,000 loan equals \$2,500 ($\$100,000 \times 2.5\%$).

General rule. Generally, points cannot be deducted fully in the year paid. Because points are prepaid interest, they are deducted ratably over the life of the loan. See *Deduct or Amortize Points* chart, next column.

Note: If the loan is a home equity, line of credit, or credit card loan and the proceeds from the loan are not used to buy, build, or substantially improve the home, the points are not deductible.

Report deductible points on Schedule A (Form 1040):

- Line 8a, if paid at closing to purchase a home and reported to the taxpayer on Form 1098, *Mortgage Interest Statement*.
- Line 8c, if not reported to the taxpayer on Form 1098.

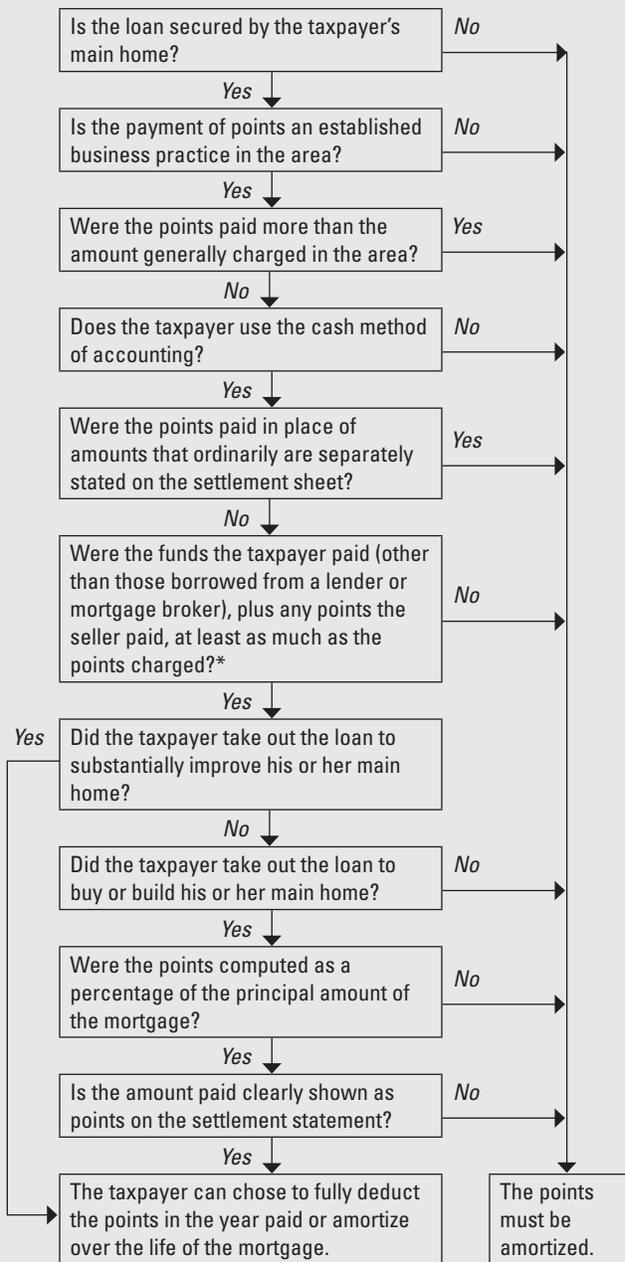
Other costs. Fees, such as appraisal fees, are not interest and are added to basis of the home if the fee is related to buying the property, but not added to basis if the fee is to secure a loan.

Planning Tip: First-time homebuyers who purchase a residence late in the year often find they do not have enough mortgage interest or property taxes accumulated to benefit from itemizing deductions. In this case, amortizing the points provides tax benefits by extending the deduction into future years. Although the yearly deduction may be small when amortized over 15 or 30 years, a large deduction can be waiting for the taxpayer if the mortgage is paid off early. See *Mortgage paid off early*, page 4-13.

Mixed use proceeds. If proceeds from a loan are used to both substantially improve the taxpayer's main home and for other purposes, the points are apportioned between the amounts used for each purpose and deducted accordingly.

Example: Pete took out a 15-year home equity loan of \$80,000 on July 1, 2025, and paid \$800 in points to secure the loan. He used \$60,000 of the proceeds to put an addition on his primary residence and used the remaining \$20,000 to take a vacation. Pete deducts the \$600 in points in 2025 and the remaining \$200 is nondeductible personal interest. See *Deductible Home Mortgage Interest* chart, page 4-10.

Deduct or Amortize Points



* The funds provided are not required to have been applied to the points. They can include a down payment, an escrow deposit, earnest money, and other funds paid at or before closing for any purpose.

Deducting points ratably (amortized) over life of loan. If the points are not fully deductible in the year paid, or the taxpayer chooses not to deduct the points in full in the year paid, the points are deducted ratably over the life of the loan if all of the following tests are met.

- The taxpayer uses the cash method of accounting,
- The loan is secured by a home (does not need to be the taxpayer's main home),
- The loan period is not more than 30 years,
- If the loan period is more than 10 years, the terms of the loan are the same as other loans offered in the area for the same or longer period, and
- Either the loan amount is \$250,000 or less, or the number of points is not more than four if the loan period is 15 years or less, or six if the loan period is more than 15 years.

If the taxpayer does not meet the requirements, page 4-12, the points reduce the issue price of the loan. This reduction results in original issue discount. For original issue discount rules, see IRS Pub. 535, *Business Expenses*.

Seller-paid points. Points are treated as having been paid by the buyer.

<i>Seller</i>	<ul style="list-style-type: none"> • Cannot deduct seller-paid points. • Reduces amount realized on home sale by amount of points.
<i>Buyer</i>	<ul style="list-style-type: none"> • Deducts eligible seller-paid points as if buyer had paid them, either in full or ratably over mortgage life, as applicable. • Reduces the home's basis by the amount of points deducted.

Mortgage paid off early. Any remaining balance of points being deducted over the life of the mortgage is deducted in full when the mortgage ends. This can happen when the mortgage is paid off early, paid off as part of the house sale, or refinanced with a new lender.

Did You Know? If a mortgage is refinanced with the same lender, any remaining point balance is deducted over the life of the new loan.

Second home, business property, and investment property. Points paid to obtain financing to purchase property that is not the taxpayer's main home must be amortized over the life of the loan.

Limits on deducting points. Points are not deductible to the extent the mortgage debt exceeds the limits discussed under *Home Mortgage Interest*, page 4-10.

Mortgage Interest Special Situations

Late payment charge. A taxpayer can deduct as home mortgage interest a late payment charge if it is not for a specific service in connection with the mortgage loan.

Prepayment penalty. A penalty paid for paying off a mortgage early is deductible as home mortgage interest if it is not for a specific service performed in connection with the mortgage loan.

Mortgage interest credit. Reduce the mortgage interest deduction by any credit claimed on Form 8396, *Mortgage Interest Credit*. For credit rules, see *Mortgage Interest Credit*, page 11-12.

Ministerial or military housing allowances. Ministers and members of the Armed Forces who receive tax-free housing allowances are also allowed to deduct mortgage interest and real estate taxes paid from the allowance on Schedule A (Form 1040), *Itemized Deductions*. See *Parsonage (Housing) Allowance*, page 14-6, and *U.S. Armed Forces*, page 14-7.

Divorce or separation. If the divorce or separation agreement requires a taxpayer to make all mortgage payments on a jointly-owned home, the payment of interest may be treated as alimony. See *Expenses of a Jointly-Owned Home—Alimony* chart, page 12-12.

Construction loan. Interest paid on a home construction loan prior to completion for occupancy can be deducted as mortgage interest for up to 24 months, but only if the home becomes the taxpayer's main or second home upon completion. The 24-month period can start at any time on or after the date construction begins. Interest paid prior to the start of construction is non-deductible personal interest.

Casualty. Mortgage interest continues to be deductible in the case of a home destroyed by fire, storm, tornado, earthquake, or other casualty. The destroyed home continues to qualify as a first or second home if, within a reasonable period of time, the taxpayer rebuilds and moves into the home or sells the land on which the home was located.

Rent. If a taxpayer moves into a home prior to the final settlement on the purchase, any payment to live in the home for that period is considered rent and not interest, even if the settlement papers call it interest.

Refund of interest. If a refund of interest is received in the same year it was paid, reduce interest expense by the amount refunded. If a refund was received for interest deducted in an earlier year, the refund is included in income on line 8z, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*, but only up to the amount of the deduction that reduced tax in the earlier year. For other rules, see *Recoveries*, Tab 3.

Foreign home or foreign mortgage. Otherwise qualifying mortgage interest on a main or second home is deductible no matter where the home or lender is located. If a foreign lender did not issue Form 1098 to the taxpayer, the interest should be reported in U.S. dollars on line 8b, Schedule A (Form 1040), and an explanatory statement attached. Foreign real property taxes are not deductible.

Author's Comment: Mortgage interest paid by a U.S. citizen or resident to a foreign lender and secured by property located outside the United States is subject to mandatory 30% backup withholding by the payer at the time the payment is made. Tax treaties may provide for a reduced withholding rate. Taxpayers in this situation can use a qualified intermediary to process the payments and remit the backup withholding. For more information about withholding for payments to nonresident aliens and foreign entities, see IRS Pub. 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*.

Investment Interest Paid

Interest paid on money borrowed to purchase investment property is investment interest. File Form 4952, *Investment Interest Expense Deduction*, to calculate the deductible amount of investment interest.

Exception: Form 4952 does not have to be attached to the return if all three of the following apply.

- Investment interest expense does not exceed investment income from interest and ordinary dividends minus qualified dividends,
- The taxpayer has no other deductible investment expenses, and
- The taxpayer has no carryforward of disallowed investment interest expense from the preceding year.

Deductible investment interest does not include:

- Personal interest,
- Home mortgage interest,
- Passive activity interest,
- Interest related to tax-exempt investments,
- Interest that must be capitalized, such as under IRC section 263A, or
- Interest disallowed with respect to life insurance, endowment, or annuity contracts issued after June 8, 1997.

Deduction limit. The deduction for investment interest expense is limited to net investment income. Investment interest not allowed due to the deduction limit is carried forward to the following year. There is no limit on how many years it can be carried forward.

Investment property. Property held for investment includes property that produces income that is not trade or business income, including interest income, dividend income, annuity income, or royalty income. It also includes property that produces gain or loss from the disposition of property that produces the above types of income, or is held for investment. It does not include an interest in a passive activity, except for certain oil or gas property held directly or in a general partnership where the taxpayer does not materially participate.

Investment income. This includes gross income from property held for investment, such as interest, ordinary dividends, short-term capital gains, annuities, and royalties. Investment income does not include:

continued on next page

- Qualified dividends subject to the long-term capital gain rate, unless the taxpayer elects to include it in investment income,
- Net long-term capital gain, unless the taxpayer elects to include it in investment income, or
- Alaska Permanent Fund dividends.

Election to treat qualified dividends and net long-term capital gain as investment income. The taxpayer may wish to make this election when investment interest expense is more than investment income.

- The election is made by including the amount on Form 4952 on a timely filed return, including extensions.
- The election can be made by amending a timely filed return within six months of the original due date, not including extensions. Write “Filed pursuant to section 301.9100-2” at the top of the return.
- The elected amount of qualified dividends and capital gain income is not eligible to be taxed at the long-term capital gain rate.
- Once made, the election cannot be revoked without IRS consent.

Investment interest expense deduction. The deductible amount from Form 4952 is reported on line 9, Schedule A (Form 1040), even if all or part of it is attributable to a partnership or S corporation.

However if any part of the interest expense is attributable to:

- Royalties, enter that part on Schedule E (Form 1040).
- A trade or business that is not a passive activity, enter that part on the schedule where the other expenses for that trade or business are reported.
- An activity in which the taxpayer is not at risk, also use Form 6198, *At-Risk Limitations*, to compute the deductible investment interest expense.

Alternative minimum tax. A second Form 4952 must be filled out to determine the amount of investment interest expense that is deductible for AMT purposes.

Interest expense—partners and shareholders. An individual shareholder of an S corporation or partner of a partnership reports interest expense in connection with debt-financed acquisitions of the stock or partnership interest on either Schedule E (Form 1040) or Schedule A (Form 1040) depending on the type of expenditure to which the interest expense is allocated.

Example: A shareholder borrows money to purchase stock in an S corporation and the interest expense is properly allocated to a trade or business expenditure of the S corporation. The interest expense is reported in Part II, Schedule E (Form 1040), on a separate line and identified as “business interest,” followed by the name of the S corporation. This interest expense is not subject to the investment interest expense limitations on Form 4952.

For information on S corporations, see *Business interest expense limitation*, page 19-8. For information on partnerships, see *Business Interest Expense Limitation*, Tab 20.

Election to Capitalize Interest and Taxes

A taxpayer may elect to add certain interest and taxes to the cost basis of unimproved land and other property rather than claim a current deduction. This election might benefit the taxpayer in the following situations.

Standard deduction. If a taxpayer claims the standard deduction, the deduction for interest and taxes is lost. The taxpayer will benefit from the election to capitalize the amounts, which will increase the basis of the property.

State and local taxes (SALT) deduction limitation. A taxpayer whose SALT deduction is limited may benefit from making the election to capitalize otherwise nondeductible real estate tax. See *State and Local Tax (SALT) Deduction Limitation*, page 4-8.

AMT. If taxes reported on Schedule A (Form 1040) would be added back to income as a preference item for AMT, the taxpayer may not realize a benefit from the deduction. In this case, the election to capitalize and add the amounts to basis would benefit the taxpayer.

Election. A statement listing the expenses capitalized must be attached to the original return for the year the election is made. The election is made on a year-by-year basis. (Reg. §1.266-1)

Interest Tracing Rules (Allocation of Interest)

The rules for deducting interest vary depending on whether the loan proceeds are used for business, personal, or investment activities. If loan proceeds are used for more than one type of expense, the interest must be allocated based on the use of the loan’s proceeds. (Reg. §1.163-8T)

Interest tracing rules do not apply to pre-October 14, 1987, home mortgage interest, which is deductible regardless of how loan proceeds are used. See *Home Mortgage Interest*, page 4-10, and *Election to Treat Mortgage Interest as Not Secured by the Home*, page 4-11.

Interest categories. Allocate interest expense to the following categories.

- Nonpassive trade or business activity interest.
- Passive trade or business activity interest.
- Investment interest.
- Portfolio interest.
- Personal interest.

Planning Tip: The easiest way to trace disbursements to specific uses is to keep the loan proceeds separated from other funds.

Secured loan. Except for pre-October 14, 1987, home mortgage loan proceeds, the allocation of loan proceeds is not affected by the use of the property that secures the loan.

Example #1: Bart takes out an equity loan on a house that he uses in his rental activity. He uses the proceeds to buy a new car for personal use. Bart receives Form 1098, reporting the interest paid on the rental house loan. Bart cannot deduct any of the interest on Schedule E (Form 1040) because he used the loan proceeds for personal purposes.

Court Case: The taxpayers financed the purchase of a personal residence with a mortgage secured partially by the home and partially by stocks they owned. They allocated the interest on the loan portion secured by the stocks to investment interest. The IRS disallowed the investment interest deduction, and the court agreed. The treatment of loan interest is based on the use of the loan proceeds rather than on the assets securing the loan. (*Ellington*, T.C. Memo. 2011-193)

Proceeds not disbursed to borrower. Even if loan proceeds are disbursed to a third party, the interest allocation is still based on the use of the funds. This applies whether paying for property, services, or anything else by incurring a loan, or taking property subject to a debt.

Proceeds deposited in borrower’s account. Loan proceeds deposited in an account are treated as property held for investment, even if the account does not pay interest. Any interest paid on the loan is investment interest expense. As the loan proceeds are withdrawn, reallocate the loan based on the use of the funds.

Order of funds spent. Treat loan proceeds deposited in an account as used (spent) before either of the following amounts.

- Any unborrowed funds held in the same account.
- Any amounts deposited after these loan proceeds.

Amounts paid within 30 days. If loan proceeds are received in cash or deposited in an account, the taxpayer can treat any payment (up to the amount of the loan proceeds) made from the account, or from cash, as made from those proceeds if made within 30 days before or after receipt.

Example #2: Assume the same facts as Example #1, page 4-14, except that Bart deposits loan proceeds of \$25,000 into his checking account on August 4, 2025. One day later, he buys a car for \$25,000 for personal use. On August 18, 2025, he deposits a paycheck from another job into his checking account and pays bills. On August 28, 2025, his remaining checkbook balance is \$5,000. On that same date, he writes out a \$4,000 check to fix the roof on his rental property. Since the rental expense was paid within 30 days before or after depositing the loan proceeds, he can allocate 16% ($\$4,000 \div \$25,000$) of the loan to his rental activity.

Loan repayment ordering rules. When a loan is repaid that has been allocated to more than one use, treat it as being repaid in the following order.

- 1) Personal use.
- 2) Investment and passive activities [other than those included in number (3)].
- 3) Passive activities in connection with a rental real estate activity in which the taxpayer actively participates.
- 4) Former passive activities.
- 5) Trade or business use and expenses for certain low-income housing projects.

Example #3: Assume the same facts as Example #2, above, except on September 4, 2025, Bart begins to repay the loan. His equity loan has a 5% interest rate with a 15-year payback schedule. Principal and interest equal \$200 per month. For 2025, his amortization schedule is as follows.

Date	Payment	Principal	Interest	Balance
Aug.	0.00	0.00	0.00	25,000.00
Sept.	200.00	95.83	104.17	24,904.17
Oct.	200.00	96.23	103.77	24,807.94
Nov.	200.00	96.63	103.37	24,711.31
Dec.	200.00	97.04	102.96	24,614.27
2025 Totals	800.00	385.73	414.27	

\$4,000 of the original \$25,000 principal balance is allocated to Bart's rental activity. The ordering rules require the repayment of principal to be allocated first to personal before rental use, so the total principal amount of the loan repayment for 2025 is allocated to the personal portion of the loan, which in turn affects the calculation of interest deductible on Schedule E (Form 1040). Principal and interest are allocated between the two uses as follows.

Date	Payment	Principal		Interest		Balance	
		Personal/Rental	Personal/Rental	Personal/Rental	Personal/Rental	Personal/Rental	Personal/Rental
Aug.	0.00	0.00	0.00	0.00	0.00	21,000.00	4,000.00
Sept.	200.00	95.83	0.00	87.50	16.67	20,904.17	4,000.00
Oct.	200.00	96.23	0.00	87.10	16.67	20,807.94	4,000.00
Nov.	200.00	96.63	0.00	86.70	16.67	20,711.31	4,000.00
Dec.	200.00	97.04	0.00	86.29	16.67	20,614.27	4,000.00
Totals	800.00	385.73	0.00	347.59	66.68		

Charitable Contributions

Cross References

- Schedule A (Form 1040), *Itemized Deductions*
- Form 8283, *Noncash Charitable Contributions*
- IRS Pub. 526, *Charitable Contributions*
- IRS Pub. 561, *Determining the Value of Donated Property*
- IRC §170, *Charitable, etc., contributions and gifts*

Related Topics

- Charitable Deductions—Form 1041 (Schedule A), page 21-15
- Charitable Contributions, page 18-10

Eligibility to Receive Tax-Deductible Contributions

Contributions are deductible only if made to a qualified organization. There are several ways to verify whether an organization is tax exempt and eligible to receive tax-deductible charitable contributions.

- 1) Ask the organization whether it is a qualified organization. The organization should be able to provide verification of its charitable status.
- 2) Go to <https://apps.irs.gov/app/eos/> to access the IRS online tool (Tax Exempt Organization Search) that offers information on tax-exempt organizations.
- 3) Call the IRS at 877-829-5500.

Exempt status revoked. An organization's tax-exempt status is automatically revoked if it has failed to file required annual reports for three consecutive years. Tax-exempt status can be retroactively reinstated if the organization files the missing reports.

- Donations made during a revocation period qualify to be deductible only if the organization's tax-exempt status is retroactively reinstated.
- The IRS *Auto-Revocation List* (linked at *Tax Exempt Organization Search*) is updated regularly.

Qualified Charitable Organizations

Qualified charitable organizations include nonprofit groups that are religious, charitable, educational, scientific, or literary in purpose, or that work to prevent cruelty to children or animals.

Examples of Qualified and Nonqualified Organizations

Qualified	Nonqualified
<ul style="list-style-type: none"> • Churches, mosques, temples, synagogues, and other religious organizations. • Girl Scouts, Scouts BSA, Boys and Girls Clubs of America, Red Cross, CARE, Goodwill, Salvation Army, United Way. • Fraternal orders, if gifts used for qualified charitable purposes. • Veterans' and certain cultural groups. • Nonprofit schools, colleges, museums, hospitals, and organizations trying to find medical cures. • Federal, state, and local governments, if gifts are solely for public purposes, including nonprofit volunteer fire departments, public parks facilities, and civil defense organizations. 	<ul style="list-style-type: none"> • Country clubs, lodges, fraternal orders, and similar groups, unless used for charitable purposes. • Civic leagues, social and sports clubs, labor unions, and chambers of commerce. • Political organizations and candidates. • Homeowner's associations. • Foreign organizations. <p>Exceptions: Contributions to certain Canadian, Israeli, and Mexican charities are deductible. See IRS Pub. 526.</p>

Author's Comment: Some confusion exists about whether sports associations qualify as charitable organizations. In IRS Pub. 526, *Charitable Contributions*, "sports clubs" are shown as not qualified, while "certain organizations that foster national or international amateur sports competition" are qualified. An analysis of Revenue Rulings suggests that amateur youth sports associations are more likely to qualify than adult recreational sports clubs.

Author's Comment: Donating to a crowdfunding campaign (for example to pay for an individual's medical expenses) typically does not qualify as a tax-deductible contribution since the funds are going to a specific individual and not a qualified charitable organization. In addition, the individual who received the funds typically does not have taxable income because they are viewed as a gift.

Deductible as Charitable Contributions	Nondeductible as Charitable Contributions
<ul style="list-style-type: none"> • Cash, check, credit card, or money order given to a qualified charitable organization. • Property other than cash or check given to a qualified charitable organization. • Out-of-pocket expenses when serving a qualified organization as a volunteer. • Automobile expenses when serving a qualified organization as a volunteer. See <i>Auto expenses</i>, page 4-17. • Limited portion of expenses paid for a student living with the taxpayer under a written agreement, sponsored by a qualified charitable organization. • Charity volunteer's travel expenses away from home, including meals/lodging if there is no significant level of personal pleasure, recreation, or vacation in the travel. 	<ul style="list-style-type: none"> • Contribution to a nonqualified charitable organization. • Political contributions. • The value of a taxpayer's time or services.* • Gifts to a specific individual.** • Donations to organizations engaged in lobbying, for law changes, or for the taxpayer's trade or business. [IRC §170(f)(9)] • Tuition at a school that is a qualified charity (but may qualify for education tax benefits). See <i>2025 Education Benefits Comparison Chart</i>, page 12-2. • The cost of raffle, bingo, or lottery tickets (but may qualify as a gambling loss). See <i>Gambling losses</i>, page 4-26. • The value of blood given to a blood bank. • Adoption expenses (but may qualify for credit or exclusion). See <i>Adoption Expenses</i>, page 11-3. • Contributions of \$250 or more if acknowledgement statement is not retained. See <i>Substantiation Requirements for Charitable Contributions</i>, page 4-20. • The transfer of a future interest in tangible personal property. See <i>Future Interest in Property</i>, page 4-18. • The amount of contribution where a benefit was received in exchange. See <i>Contributions That Benefit the Taxpayer</i>, next column, for exceptions. • Certain contributions to donor-advised funds.
<p>* Example: Matt is a professional audio-visual technician who volunteers his services to a charitable organization. The fees he would have received for his time and services cannot be deducted as a charitable contribution.</p> <p>** Example: A speaker visits a church to give inspirational talks. Jim, a member of the congregation, gives the speaker \$100 cash to help with his travel expenses. Jim cannot deduct the donation because it was given to an individual, even though the speaker is a representative of a charitable organization.</p>	

Court Case: The taxpayer claimed a deduction for gifts to a Catholic church in Jos, Nigeria. The IRS disallowed the deduction. The taxpayer failed to prove that the church was created or organized within the United States or any of its possessions, or under any law of the United States, any State, the District of Columbia, or any possession of the United States. The court ruled the deduction was not allowed. (*Golit*, T.C. Memo. 2013-191)

Cash Contributions

Report contributions made by cash, check, or credit card on line 11, Schedule A (Form 1040), *Itemized Deductions*. Out-of-pocket expenses incurred in performing volunteer work for a charitable organization (including the charitable mileage deduction) are also considered cash contributions.

Student living expenses. A taxpayer can deduct up to \$50 per full calendar month of qualifying expenses for a foreign or American student who meets all three of the following requirements. Any month during which all three of the following conditions are met for 15 or more days counts as a full month.

- The student lives in the taxpayer's home under a written agreement with a qualified charitable organization as part of a program to provide educational opportunities for the student,

- The student is not the taxpayer's relative or dependent, and
- The student attends a U.S. school full-time in grade 12 or below.

Author's Comment: Any contribution involving the payment of money to or on behalf of a charity is considered a cash contribution, whether it is in the form of cash, check, credit card, payroll deduction, out-of-pocket expense, student living expense, or foster parent expense. For example, if the taxpayer purchases food or new clothing using cash, check, or a charge card and donates these items to the charity, this donation is considered a cash donation. A noncash contribution is a donation of property owned by the taxpayer.

Contributions That Benefit the Taxpayer

If a taxpayer receives a benefit in exchange for a charitable contribution, the deduction is reduced by the value of the benefit received.

Example: Paul made a \$100 donation to Public TV and received a \$40 CD in appreciation for his donation. His deduction equals \$60.

Athletic event tickets or seating rights. No deduction is allowed for amounts paid to (or for the benefit of) a college or university in exchange for athletic event tickets or seating rights.

Ticket to a charitable benefit event. The deduction equals the ticket price, minus the value of the benefits received. If there is an established charge for the event, that charge is the value of the taxpayer's benefit. If there is no established charge, the reasonable value of the right to attend the event is the value of the taxpayer's benefit.

- This is true even if the taxpayer did not actually attend the event.
- If the taxpayer pays for the ticket but returns it to the qualified charity for resale, the entire cost of the ticket is deductible.

Membership fees or dues as a donation. Membership dues or fees paid to a qualified charitable organization, minus the value of any membership benefits, are deductible.

- If the annual membership fee is \$75 or less, certain membership benefits are disregarded and the full amount of the donation is deductible, even if the taxpayer pays more than \$75 annually.
- Examples of disregarded organization membership benefits include:
 - Free or discounted parking or admission to events or facilities.
 - Preferred access to, or discounts for, organization goods or services.
 - Admission to member-only events for which the admission cost is a token amount of \$13.60 or less (2025).

State or local credit for charitable contribution. No deduction is allowed for the portion of a contribution from which a taxpayer receives or expects to receive a credit against state or local taxes. See *State or local credit for charitable contribution limit*, page 4-19.

Token items. The entire payment to a qualified charitable organization is deductible if a benefit received is considered to have insubstantial value. Both of the following must be true.

- The value of the benefit is not more than the lesser of \$136.00 (2025) or 2% of the entire donation amount, and the donation is at least \$68.00 (2025).
- Any benefits received are token items bearing the charity's name or logo (such as calendars, key chains, mugs, posters, tee shirts, etc.) with an aggregate cost of \$13.60 (2025) or less as stated by the organization.

Contributions to Donor-Advised Funds

A donor-advised fund is a fund or account in which a donor can, because of being a donor, advise the fund on how to distribute or invest amounts held in the fund. [IRC §170(f)(18)]

A taxpayer cannot deduct a contribution to a donor-advised fund if:

- The qualified organization that sponsors the fund is a war veterans' organization, a fraternal society, or a nonprofit cemetery company, or
- The taxpayer does not have an acknowledgement from the sponsoring organization that it has exclusive legal control over the assets contributed.

Did You Know? Contributions made to a donor-advised fund are deductible in the year the contribution is made and not in the year the funds are distributed.

Volunteer Expenses

Taxpayers who do volunteer work for charitable organizations can deduct unreimbursed out-of-pocket expenses incurred in giving services.

- The expense must be incurred because of the services rendered.
- The value of the taxpayer's time is not deductible.
- Out-of-pocket expenses that were reimbursed are not deductible.
- Report unreimbursed volunteer expenses as cash contributions. Do not report them on Form 8283, *Noncash Charitable Contributions*.

Example: Glen drives 30 miles from home to his church to provide weekly volunteer janitorial services. His commuting costs and the unreimbursed cost of his cleaning supplies are deductible as cash contributions.

Auto expenses. The cost of using the taxpayer's auto in providing services for a charitable organization is deductible.

- Deduct either the actual cost of gas and oil, or deduct miles driven at the charitable standard mileage rate (14¢ per mile).
- Add the cost of parking and tolls to the amount claimed.
- A written log must be kept showing the name of the charitable organization, each date the vehicle was used for charity, and miles driven for the charity (if using the charitable standard mileage rate).

Charitable standard mileage rate. The 2025 rate is 14¢ per mile.

Travel expenses. The cost to travel while providing services for a charitable organization is deductible if there is no significant element of personal pleasure, recreation, or vacation in the travel. The deduction will not be denied simply because the taxpayer enjoys volunteer work.

- The expenses are not deductible if the taxpayer has only nominal duties for the charity, or if the taxpayer has no duties to perform during significant portions of the trip.
- Travel expenses, if deductible, can include the cost of air, rail, and bus transportation. Meals and lodging expense are also deductible if incurred while the taxpayer is providing service away from home.

Conventions. Travel expenses to attend a convention of a qualified organization are deductible only if the taxpayer is a chosen representative. Expenses to attend a church convention, for example, are not deductible if the taxpayer attends as a member of the church rather than as a chosen representative.

Author's Comment: Charitable travel expenses are all or nothing. The taxpayer either qualifies to deduct the entire cost of travel, meals, and lodging at a specific location, or none of it, depending on the level of volunteer work performed while traveling.

Uniforms. The cost and upkeep of uniforms not suitable for everyday use are deductible if required to be worn while performing volunteer work for a charitable organization.

Did You Know? Because charitable out-of-pocket expenses are not business related, they are not subject to the same limits as business-related expenses. For example, deductible expenses for meals are not subject to the 50% deduction limit for business meals.

Did You Know? Depreciation on a computer used for charitable work cannot be deducted, but the unreimbursed costs of using that computer, such as toner, paper, and other incidental supplies, are deductible as out-of-pocket volunteer expenses.

Contributions of Property

Contributions of property are reported on line 12, Schedule A (Form 1040). Form 8283, *Noncash Charitable Contributions*, may also be required.

- The deduction amount generally equals the fair market value (FMV) of the contributed property.
- When a property has declined in value, there is no additional deduction for the difference between FMV and the taxpayer's basis.
- When the property has increased in value, the deduction may be reduced below FMV (but not below basis), depending on whether the donated property is ordinary income property or capital gain property. See *Reductions to Fair Market Value*, below.

Planning Tip: Maximize tax benefits when donating shares of stock.

FMV of stock less than taxpayer's basis. The taxpayer may want to sell the stock, recognize the capital loss, and then donate the cash to the charity rather than give the stock directly to the charity.

FMV of stock more than taxpayer's basis. If the stock has been held more than one year (capital gain property), the taxpayer can donate the appreciated stock to the charity, deduct the FMV as a charitable deduction, and not pay tax on the unrealized gain. If the stock has been held for one year or less, the shares are ordinary income property and the charitable deduction is limited to the taxpayer's basis.

Fair market value. Fair market value (FMV) is what a willing buyer would pay a willing seller when neither must buy or sell and both are aware of the sale conditions. See *Fair Market Value Guide for Used Items*, page 4-2.

Clothing or household items. No deduction is allowed for charitable contribution of a clothing item or household item if either is true:

- The item has minimal monetary value, such as used socks or undergarments, or
- The item is not in good condition or better. **Exception:** A deduction may be allowed if the item is worth more than \$500, such as an antique or collectible. See *Appraisal exceptions*, page 4-18.

Reductions to Fair Market Value

Ordinary Income Property (Generates ordinary income if sold at FMV.)

- Deduction equals FMV minus the amount that would be ordinary income or short-term capital gain if the property were sold.
- This reduction has the effect of limiting the deduction to the taxpayer's basis in the property.
- For example, if the property is a depreciable asset held more than one year, reduce FMV by depreciation allowed or allowable, limiting the deduction to the property's basis. (Depreciation would be subject to recapture as ordinary income if the property were sold.)

Examples:

- Inventory.
- Art created by the donor.
- Capital assets held for one year or less.
- Depreciable property used in a trade or business.

continued on next page

Capital Gain Property (Generates long-term capital gain if sold at FMV.)

- Deduction generally equals FMV, even if less than the taxpayer's basis in the property.
- Reduce FMV by amount of any appreciation if:
 - The property is contributed to certain private non-operating foundations (does not apply to contributions of qualified appreciated stock),
 - The property is tangible personal property that is put to an unrelated use by the charity,
 - The property is intellectual property,
 - The property is certain taxidermy property,
 - The 50% AGI limit is used instead of the special 30% AGI limit. See *Charitable Contributions Deduction Limitations*, page 4-19, or
 - The property is certain tangible personal property with a claimed value of more than \$5,000, disposed of by the charity, within the year contributed, without required certification of exempt use from the charity.

Examples:

- Stocks and bonds held long term.
- Personal items such as furniture, clothing, vehicles, etc.
- Copyrights, patents, trade secrets, etc.

Real and Depreciable Property Exception

- Capital gain property also includes certain real property and depreciable property, used in a trade or business, held more than one year. To the extent of any gain that must be recaptured as ordinary income under IRC §1245 and §1250, or any other code provision, the property is treated as ordinary income property. See *Depreciation Recapture—Sale of Business or Investment Property*, page 6-17.

Additional Exceptions

- FMV reduction may be required for donated motor vehicles, boats, and airplanes. See *Donating Vehicles, Boats, and Airplanes*, page 4-20.
- Do not reduce FMV of a contribution if associated ordinary income or capital gain is reported in the year of contribution, such as the donation of an installment note to a qualified charitable organization.

Property Subject to a Debt

- Reduce FMV by amount of any deductible interest attributable to debt on the property after contribution. See IRS Pub. 526 for details.

Form 8283, Noncash Charitable Contributions

Form 8283 required. Use Form 8283, *Noncash Charitable Contributions*, to report information about noncash contributions when the total amount reported on line 12, Schedule A (Form 1040), exceeds \$500.

Deductions will generally be disallowed if a taxpayer fails to:

- Attach a required Form 8283 to his or her return,
- Obtain a required appraisal and complete Section B of Form 8283, or
- Attach a required appraisal for certain other deductions.

Court Case: The taxpayer acquired property for about \$3 million. Seventeen months later, the taxpayer donated the property and claimed a charitable contribution of \$33 million. No amount was indicated for basis on Form 8283. The court agreed with the IRS' decision to deny the deduction. Failure to comply with the substantiation requirement resulted in full denial of the claimed charitable contribution deduction. [*RERI Holdings I, LLC, Jeff Blau, Tax Matters Partner*, 149 T.C. No. 1 (2017)]

Completing Form 8823

Complete Section A, Form 8283	Complete Section B, Form 8283
<ul style="list-style-type: none"> • Items or groups of similar items* for which a deduction of \$5,000 or less per item is claimed. • Publicly traded securities, even if deduction exceeds \$5,000. 	<ul style="list-style-type: none"> • Items or groups of similar items* for which a deduction of more than \$5,000 is claimed. • Most items reported in Section B require a written appraisal. See <i>Appraisal exceptions</i>, next column.

* Similar items are items of the same generic category or type. For example, clothing and books are not similar.

Appraisals. Appraisals are generally required only for items reported in Section B, Form 8283. However, a clothing or household item that is in less than good condition, but that has FMV of more than \$500, may be reported in Section A, Form 8283, if a qualified appraisal of the item is attached to the return. See *Clothing or household items*, page 4-17.

Appraisal exceptions. The following items reported in Section B, Form 8283, do not require a written appraisal:

- Non-publicly traded stock valued at \$10,000 or less.
- A vehicle, if the deduction is limited to the gross proceeds of its sale by the charity. See *Donating Vehicles, Boats, and Airplanes*, page 4-20.
- Intellectual property, such as copyrights, patents, trade secrets, etc.
- Securities with readily available market quotations.
- Stock, inventory, or property held primarily for sale to customers in the ordinary course of business.
- Inventory or other property donated by a corporation to a qualified charitable organization for care of the ill, needy, or infants.

See Reg. section 1.170A-13 (c)(2) and Reg. section 1.170A-16(d)(2).

Example: Judy made the following donations to qualified charitable organizations: 15 rare books valued at \$400 each, used clothing with a total value of \$400, and publicly traded stock valued at \$7,000 on the date of the donation. Judy files Form 8283 with her tax return, reporting the clothing and securities in Section A and the books in Section B. She will need a written appraisal only for the books.

Recapture of Charitable Contribution Deduction

Taxpayers must recapture part of the charitable contribution deduction by including it in income if all of the following statements are true.

- Tangible personal property with a claimed value of more than \$5,000 was donated and the deduction was more than the basis in the property,
- The organization sells, trades, or otherwise disposes of the property after the year it was contributed but within three years of the contribution, and
- The organization does not provide a signed, written statement (such as on Part IV, Form 8282, *Donee Information Return*), that either:
 - Certifies its use of the property was substantial and related to the organization's purpose, or
 - Certifies its intended use of the property became impossible.

If all of the preceding statements are true, include in income:

- The deduction claimed for the property, minus
- The taxpayer's basis in the property when the contribution was made.

The recapture occurs in the year the organization disposed of the property. Report on line 8z, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*.

Future Interest in Property

A charitable contribution deduction is not allowed until the entire interest in property has been transferred.

Exceptions: A deduction for a partial or future interest in property is allowed if the interest represents one of the following.

- A remainder interest in a personal home or farm. **Example:** A taxpayer retains the right to live in her home during her lifetime and gives her church a remainder interest in her home upon her death.
- A charitable remainder annuity trust or a charitable remainder unitrust. [IRC §170(f)(2)]
- A qualified conservation contribution. See *Qualified conservation contribution (QCC)*, page 4-19.

continued on next page

- An undivided part of the taxpayer's entire interest. Must consist of part of every substantial interest or right in the property.

Example: Tom donates voting shares of stock to a qualified charitable organization but retains the right to vote the stock shares. The right to vote the stock is a substantial right in the stock. Tom has not donated an undivided part of his entire interest and no deduction is allowed.

Charitable remainder trust. Contributions to a charitable remainder trust qualify for a partial charitable deduction. The deduction is limited to the present value of the charitable organization's remainder interest. This is calculated as the value of the donated property minus the present value of the annuity. [Reg. § 1.664-2(c)]

When Contributions Are Deductible

Contributions are deductible in the year they are actually contributed to a qualified charity, regard-less of the taxpayer's method of accounting.

Contribution Method	Date Considered Contributed
• Check or cash.....	Date mailed or delivered (if not mailed)
• Credit card.....	Date charged
• Text message.....	Date charged to telephone or wireless account
• Property donation.....	Date unconditionally and physically delivered

For more information on when other types of donated property can be deducted, see IRS Pub. 526, *Charitable Contributions*.

Charitable Contributions Deduction Limitations

60% AGI limit. Cash contributions to certain organizations are limited to 60% of AGI. See *AGI-Limit Organizations* chart, below. The 60% AGI limit does not apply to noncash charitable contributions, which are limited to 50% of AGI.

Example: Bill gave his church a \$200 cash contribution and also donated clothing with a FMV of \$300. His cash contribution is limited to 60% of his AGI, whereas his clothing donation is limited to 50% of his AGI.

Contributions in excess of the 60% AGI limit are carried over to the next tax year. See *Carryover from prior year*, next column.

For-the-use-of exception. A 30% AGI limit applies to cash contributions that are for the use of an AGI-limit organization instead of to the organization. A contribution is considered for the use of an organization when it is held in a trust or similar legal arrangement.

AGI-Limit Organizations

- | | |
|---|---|
| • Churches. | • Organizations which benefit state or municipal colleges and universities receiving substantial government support. |
| • Hospitals. | • Publicly supported organizations operating for charitable, religious, educational, scientific or literary purposes. |
| • The U.S. or any state or territory, including Indian tribal governments. | • Certain private operating foundations. |
| • Publicly supported organizations operating for the prevention of cruelty to children or animals, or to foster national or international amateur sports competition. | • Organizations that respond to the needs of the general public. |
| • Educational organizations. | |

50% AGI limit. Noncash contributions to AGI-limit organizations are limited to 50% of AGI minus cash contributions subject to the 60% AGI limit.

Capital gain property election. Noncash contributions of capital gain property to an AGI-limit organization are generally limited to 30% of AGI. However, if a taxpayer elects to reduce the FMV of the property by the amount that would have been long-term capital gain if the property were sold, the 50% AGI limit applies.

Qualified conservation contribution (QCC). A deduction for a QCC is limited to 50% of AGI minus all other charitable contributions. A QCC is a contribution of a qualified real property

interest to an AGI-limit organization exclusively for conservation purposes. A real property interest is defined as:

- The entire interest in real estate other than a mineral interest, or
- A remainder interest, or
- A restriction, granted in perpetuity, on the use that may be made of the real property.

For qualified farmers or ranchers, a QCC is limited to 100% of AGI. QCCs are not taken into account in determining the AGI limits that apply to other allowable charitable contributions. A carryover of a QCC can be carried forward for 15 years.

30% AGI limit. The 30% AGI limit applies to the following:

- Donations to organizations that are not AGI-limit organizations, such as veterans' organizations, fraternal societies, nonprofit cemeteries, and certain private non-operating foundations.
- Donation of property that is used by a charity, other than capital gain property donated to a non-AGI-limit organization.
- Deduction for student living expenses.
- Certain capital gain property contributions to AGI-limit organizations. However, see *Capital gain property election*, previous column.

20% AGI limit. The 20% AGI limit applies to noncash contributions of capital gain property to:

- A non-AGI-limit organization, or
- For the use of (e.g., held in trust) any qualified organization.

State or local credit for charitable contribution limit. A taxpayer's federal charitable contribution deduction is limited to the extent he or she receives or expects to receive a corresponding state or local tax credit for that contribution. [Reg. §1.170A-1(h)(3)]

Example: In 2025, Andy makes a charitable contribution of \$1,000 to the state of New York and receives a New York state tax credit of 70% of the amount contributed. Andy's federal charitable contribution deduction must be reduced by \$700 (70% × \$1,000), which occurs regardless of whether he is able to claim the state tax credit in 2025. Andy's federal charitable contribution deduction for the \$1,000 payment to the state of New York may not exceed \$300.

Safe harbor for state and local taxes paid. If a taxpayer's federal charitable contribution deduction is reduced, the disallowed amount may qualify as taxes paid under safe harbor rules. See *Safe harbor*, page 4-9.

De minimis exception. If the state or local credit does not exceed 15% of the payment or 15% of the FMV of the property transferred, the taxpayer's federal charitable contribution deduction is not reduced.

State or local tax deduction. If a taxpayer expects to receive a state or local tax deduction, it may generally be disregarded unless the deduction exceeds the payment amount or the FMV of the property transferred.

Inventory contributions. The deduction for charitable contributions of inventory is the smaller of its FMV or its basis.

Food inventory. The donation of wholesome food by a business is reduced by only 50% of the amount that would have been ordinary income if sold. The deduction is limited to the smaller of this or 15% of the total net income from all the taxpayer's businesses from which food inventory was donated.

Carryover from prior year. Excess contributions carried over from a prior year because of AGI limitations are reported on line 13, Schedule A (Form 1040). The following rules apply.

- Excess contributions can be carried forward for up to five years (15 years for qualified conservation contributions).
- Contributions generally retain their AGI percentage limitation. For example, contributions subject to the 20% AGI limit in the year made are subject to the 20% AGI limit in the carryover year. However, see *Carryover of capital gain property*, page 4-20.

- For each category of contributions, current year contributions are deducted before carryover contributions. However, an AGI-limit organization carryover contribution must be used before current year contributions to non-AGI-limit organizations.
- Carryovers from two or more prior years use earlier year first.
- Carryover rules apply even if the standard deduction is elected in the contribution year or any carryover year. Amounts carried over must be reduced by the amount that would have been deductible, had itemized deductions been claimed. (Reg. §1.170A-10)

Example: Billy has low income, but has sizeable investments that allow him to make charitable contributions. Billy's deduction is limited to 60% of his AGI. The yearly deductions are calculated as follows.

Year	AGI	Contribution	Deduction	Carryover
2025	\$20,000	\$14,000	\$12,000	\$2,000
2026	\$22,000	\$11,700	\$13,200*	\$500
2027	\$23,000	\$0	\$500 carryover	\$0

* \$11,700 + \$1,500 carryover.

Carryover of capital gain property. A taxpayer with carryover contributions of capital gain property subject to the 30% AGI limit, who elects in the next year to use the 50% AGI limit and take appreciation into account, must recompute the carryover amount. Reduce the FMV of the property by the appreciation and reduce that result by the amount actually deducted in the previous year.

Charitable Contributions of IRA Distributions

Qualified charitable distribution (QCD). A QCD is a nontaxable distribution made directly by the trustee of the taxpayer's IRA (other than an ongoing SEP or SIMPLE) to an eligible charitable organization.

- The taxpayer must be 70½ or older at the time of the QCD.
- A QCD may be used to satisfy all or part of a taxpayer's RMD but is not limited to the RMD amount.
- QCDs are limited to \$108,000 (2025) annually, per taxpayer.
- A one-time QCD election up to \$54,000 (2025) may be made to a charitable gift annuity (CGA), charitable remainder unitrust (CRUT), or charitable remainder annuity trust (CRAT).
- A charitable contribution deduction cannot be claimed for any QCD not included in income.
- The QCD cannot be distributed to the taxpayer and then donated, it must be transferred directly to the charity. If a check is issued, it must be made payable to the charity.

IRA contribution limitation. The QCD is reduced by the aggregate amount of deductible IRA contributions made after a taxpayer reaches age 70½.

Example: Phil made deductible IRA contributions of \$4,000 in 2024 and 2025. He turned age 71 in 2024. If Phil makes a QCD in 2025 of \$10,000, only \$2,000 (\$10,000 – \$8,000) will be allowed. \$8,000 of the distribution must be included in income and \$8,000 will be allowed as a charitable contribution on Schedule A (Form 1040) on his 2025 return. If he makes no IRA contributions in 2026, he can benefit from the full QCD amount.

Eligible charitable organization. Not all charities are eligible. For example, donor-advised funds and supporting organizations are not eligible recipients of QCD distributions.

Donating Vehicles, Boats, and Airplanes

Special rules apply for determining the value of used motor vehicles, boats, and airplanes for purposes of deducting charitable contributions.

Written acknowledgement. A written acknowledgement from the donee organization, which includes details on the use or disposition of the vehicle by the donee organization, must be attached to the tax return.

Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes. Most charities use Form 1098-C for the written acknowledgement requirement. Attach Copy B to donor's tax return.

Determining FMV. The FMV of a donated vehicle can be an amount not in excess of the price listed for a similar vehicle in a used vehicle pricing guide for private party sale.

Deduction more than \$500. The donation of a vehicle, boat, or airplane with a claimed FMV of more than \$500 is limited.

- If the donee organization sells the donated vehicle without a significant intervening use of or material improvement, then the deduction is limited to gross proceeds received from the sale.
- If the donee organization sells the donated vehicle after a significant intervening use of or material improvement to the vehicle, the deduction is limited to its FMV.
- If the donee organization gives or sells the vehicle at well below FMV, to a needy individual in line with the purpose of the charity to provide transportation to the poor, the deduction is limited to FMV.

Deduction \$500 or less. A contemporaneous written acknowledgement is still required if the contribution is \$250 or more. If the donee organization sells the vehicle without any significant intervening use of or material improvement for \$500 or less, the deduction is equal to the lesser of \$500, or FMV.

Example: Jack donates his car, worth \$800, to a charity that sells it for \$400 without significant intervening use or material improvements. Jack can deduct \$500 for the donation. Because his deduction is \$250 or more, he still needs a written acknowledgement from the charity, but it is not required to be attached to his return.

Substantiation Requirements for Charitable Contributions

Required written acknowledgements from the charity must be received by the taxpayer by the earlier of the date of filing or due date of the return, including extensions.

Court Case: The taxpayer did not obtain written acknowledgement from the charity. Years later, the charitable organization filed an amended return that included language needed for the acknowledgement. The court concluded that the charity filing an amended return has no effect on the taxpayer's requirement to obtain acknowledgement prior to filing his return. [*Mishan*, 147 T.C. No. 19 (2016)]

Part contribution, part goods or services. A written statement from a charity is required if a donation is more than \$75 and is partly a contribution and partly for goods or services. The statement must contain an estimate of the value of goods or services received.

Exception: A written statement for partial contributions is not required if one of the following is true.

- The charity is a federal, state, or local government, or a religious organization where the benefit is an intangible religious benefit, such as admission to a religious ceremony.
- The goods or services are of token value, as described under *Token items*, page 4-16.
- The goods or services are membership benefits, as described under *Membership fees or dues as a donation*, page 4-16.

Court Case: The taxpayer donated approximately 120 items of Native American jewelry and artifacts to the Wheelwright Museum of the American Indian. The taxpayer obtained a Deed of Gift from the museum however, this document did not specify whether the Wheelwright Museum provided any goods or services in return for the donation. The IRS disallowed the deduction. The court stated that the taxpayer made a good faith attempt to substantially comply with the IRC. However, the strict requirements were not satisfied, so the taxpayer was not entitled to a charitable contribution deduction. [*Albrecht*, T.C. Memo. 2022-53]

Substantiation Requirements for Charitable Contributions

Do not combine separate contribution amounts for reporting requirements

Cash Contributions	Noncash Contributions
Contribution is less than \$250	
One of the following: 1) Bank record such as: <ul style="list-style-type: none"> • Canceled check, • Bank statement, or • Credit card statement. Must show date, amount of contribution, and organization name. 2) Receipt (includes email) with date, contribution amount, and organization name. 3) Payroll record and pledge card, if made by payroll deduction.	All of the following: 1) Receipt from organization showing: <ul style="list-style-type: none"> • Name of organization. • Date and location of contribution. • Reasonably detailed description of property donated. 2) Documentation of: <ul style="list-style-type: none"> • FMV and method used to determine. • Cost or other basis of appreciated property. • Amount claimed in current year if contribution is less than taxpayer's entire interest. • Terms of any condition attached to the contribution. <p>Note: A receipt is not required where it is impractical to get one, such as leaving property at a charity's unattended drop site. The organization's name, date of contribution, and description of property are still required.</p>
Contribution is \$250 to \$500	
Same as above, plus either payroll record or a written acknowledgement from the organization showing: <ul style="list-style-type: none"> • Date and amount of contribution. • Whether any goods or services other than intangible religious benefits were provided by the organization (including a good faith estimate of the value). • A statement that the only benefit the taxpayer received was an intangible religious benefit (if applicable). 	Documentation in 2) above, plus contemporaneous written acknowledgement from the organization showing: <ul style="list-style-type: none"> • Date and location of donation. • Reasonable detailed description of contributed property. • Whether any goods or services other than intangible religious benefits were provided by the organization (including a good faith estimate of the value). • A statement that the only benefit the taxpayer received was an intangible religious benefit (if applicable). <p>Note: The written acknowledgement does not need to state fair market value (FMV).</p>
Contribution is \$501 to \$5,000	
Same as \$250 to \$500, above.	Same as above, plus <ul style="list-style-type: none"> • How the property was acquired, such as purchase, gift, inheritance, etc. • Approximate date property was obtained or produced.* • Cost or other basis and adjustments.* • Items in less than good condition may require an appraisal. See <i>Appraisals</i>, page 4-18. <p>* If this information is not available due to reasonable cause, attach explanation.</p>
Contribution is over \$5,000	
Same as \$250 to \$500, above.	Same as above. A written appraisal is generally required.

Court Case: Taxpayers deducted \$25,171 in charitable contributions to their church. Their records included canceled checks and an acknowledgement letter from the church. The IRS rejected the letter because it lacked a statement regarding whether goods or services were provided in consideration for donations. A second letter containing the required language was also rejected because it did not satisfy the contemporaneous requirement. The Tax Court agreed with the IRS and the deduction was disallowed. (*Durden*, T.C. Memo. 2012-140)

Casualty and Theft Losses

Cross References

- Form 4684, *Casualties and Thefts*
- IRS Pub. 547, *Casualties, Disasters, and Thefts*
- IRS Pub. 584, *Casualty, Disaster, and Theft Loss Workbook*
- IRS Pub. 976, *Disaster Relief*
- IRC §165, *Losses*

Related Topics

- Postponing Gain on Weather-Related Sales of Livestock, page 5-30
- Tax-Related Identity Theft, page 14-13

Casualty loss. A casualty loss is the damage, destruction, or loss of property resulting from an identifiable event. The identifiable event must be:

- Sudden, not gradual or progressive,
- Unexpected, not ordinarily anticipated or intended, or
- Unusual, not a day-to-day occurrence or typical of the taxpayer's activity.

Theft loss. A theft is the taking and removing of money or property with the intent to deprive the owner of it. The taking of property must be:

- Illegal under the law of the state where it occurred, and
- Done with criminal intent.

OBBBA The OBBBA made changes to the personal casualty loss deduction for tax years beginning after 2025. For more information, see *What's New*, Tab 1.

Deductible Losses

A personal casualty and theft loss of personal-use property for an individual is deductible only if attributable to a federally-declared disaster.

Exception: An exception applies if the taxpayer has personal casualty gains for the tax year. In this case, reduce personal casualty gains by any casualty losses not attributable to a federally-declared disaster. Any excess gain is used to reduce losses from a federally-declared disaster. See *Loss not attributable to a federally-declared disaster*, page 4-25.

Federally-declared disasters. A federally-declared disaster is any disaster determined by the President of the United States to warrant assistance by the federal government. For a current list of federally-declared disaster areas, go to www.fema.gov/disasters.

\$100 limit. Reduce each casualty or theft loss event by \$100. If multiple pieces of property are damaged in a single event, a single \$100 reduction applies. Apply this limit to personal-use property after calculating the amount of loss. See *Calculating a Loss*, page 4-24.

10% AGI limit. Reduce the total of all casualty or theft losses by 10% of the taxpayer's AGI. Apply this limit to personal-use property after reducing each loss event by \$100.

Business and income-producing property. Casualty and theft losses for business and income-producing property are generally deductible regardless if due to a federally-declared disaster. However, business casualty and theft losses of property used in performing services as an employee cannot be deducted nor applied in the netting process to offset gains due to the suspension of miscellaneous itemized deductions.

Home used for business or rented out. The deductible loss may be limited for a casualty or theft loss involving a home used for business or rented out. See *Business Use of Home*, page 5-13.

Passive activity property. A gain or loss from a casualty or theft of passive activity property is not taken into account in determining a passive activity loss unless losses similar in cause and severity recur regularly in the activity. See *Passive Activity Losses*, page 7-7.

How to Report Casualties and Thefts

- Report allowable casualty or theft losses on Form 4684, *Casualties and Thefts*.
- Use a separate Form 4684 for each casualty or theft event. Multiple Forms 4684 may be required to report a single event.
- For disaster loss rules, see *Disaster Losses*, page 4-23, and *Gain Realized on Home in Disaster Area*, page 4-26.

Form 4684, Section A: Personal Use Property

The casualty or theft loss for each item of nonbusiness property that is damaged or lost equals:*

<i>The lesser of</i>	<ul style="list-style-type: none"> • The taxpayer's cost or basis in the property, or • The reduction in FMV due to the casualty or theft. 	<i>Minus</i>	Any insurance or reimbursement received, or (if the taxpayer chose not to file a claim) that could have been received.
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- Calculate the loss separately for each item. For an exception, see *Business and income producing property*, page 4-21.
 - Subtract \$100 per event, even if multiple losses occurred in a single event.*
 - Subtract 10% of the taxpayer's AGI from the total of all casualty and theft losses of personal use property from all events during the year.*
- * Special rules apply for losses due to certain qualified disasters. See *Qualified disaster losses*, page 4-23, and *Disaster Losses*, page 4-23.

Section A and Other Forms

- **Itemized deduction.** Report net loss from casualty or theft of personal use property as an itemized deduction on line 15, Schedule A (Form 1040).
- **Capital gain.** Report net gain computed in Section A as a capital gain on Schedule D (Form 1040), line 4 (short-term gain) or line 11 (long-term gain). Gain from casualty or theft loss of personal use property occurs if insurance or reimbursement minus basis exceeds casualty or theft loss (less \$100 per event).

Form 4684, Section B: Business and Income-Producing Property¹

Part I, Section B: Casualty or Theft Gain or Loss

The casualty or theft loss for each item of business or income-producing property that is damaged or lost is calculated in essentially the same way as a loss on personal use property:

<i>The lesser of</i>	<ul style="list-style-type: none"> • The taxpayer's adjusted basis in the property (cost or other basis minus depreciation allowed or allowable, including Section 179 and special depreciation), or • The reduction in FMV due to the casualty or theft. 	<i>Minus</i>	Any insurance or reimbursement received or expected.
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- Calculate the loss separately for each item, including personal loss for mixed-use property.
- There is no \$100 per event reduction and no 10% of AGI reduction.
- If business or income-producing property is stolen or completely destroyed, the decrease in FMV is not considered, and loss is calculated as follows:

Adjusted basis of property	<i>Minus</i>	Salvage value of the property	<i>Minus</i>	Any insurance or reimbursement received or expected.
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- Gain from casualty or theft loss of business or income-producing property can occur if insurance or other reimbursement minus adjusted basis in the property exceeds casualty or theft loss.
- For information about postponing recognition of gain, see *Casualty Gains*, page 4-25.

Part II, Section B: Summary of Gains and Losses

- Categorize each item of casualty or theft computed on Form 4684, Section B, as one of the following three types, for property held one year or less (short-term) and held more than one year (long-term).
 - 1) Loss from casualty or theft of trade, business, rental, or royalty property.
 - 2) Loss from casualty or theft of income-producing property.
 - 3) Gain from casualty or theft of business and income-producing property includable in income.⁴
- Tax treatment of gains and losses is determined by holding period and property type.

Section B and Other Forms

- **Income-producing property.**¹ Report total short-term and long-term loss as an other itemized deduction on line 16, Schedule A (Form 1040).²
- **Trade, business, rental, or royalty property held one year or less.** Combine short-term losses with short-term gains includable in income. Report net gain or loss on line 14, Form 4797, *Sales of Business Property*.³
- **Trade, business, rental, or royalty property held more than one year.** Combine long-term losses from all business and income-producing property with long-term gains includable in income.
 - If the result is a gain, report the amount as a capital gain on line 3, Form 4797.
 - If the result is a loss, add back any long-term loss from employee-use property. Report the resulting amount as an ordinary gain or loss on line 14, Form 4797.³

Form 4684, Section C: Theft Loss Deduction for Ponzi-Type Investment Scheme

Safe harbor reporting for criminal fraud victims. If the taxpayer is claiming a theft loss for a fraudulent or Ponzi-type investment scheme and both qualifies to use and chooses to use the safe harbor method in Revenue Procedure 2009-20, modified by Revenue Procedure 2011-58, fill out Section C and transfer the result to Section B, Part II. If the optional safe harbor method is elected by a qualifying taxpayer, the IRS will not challenge the loss.

Note: If the taxpayer does not qualify or does not choose to use the safe harbor method, do not fill out Section C. Instead, use Section B to report the loss. In either case, the deduction will be deducted as an other itemized deduction on line 16, Schedule A (Form 1040).

Reporting Options

- **Section B.** Claim the full amount of the theft loss by filling out lines 19 to 39, Form 4684.
- **Section C (Safe harbor).** Claim the loss by completing Section C. Deduct 95% of the loss if taxpayer does not pursue a potential recovery, or 75% if taxpayer intends to pursue a potential recovery. Reduce the loss by any recovery already made. (Rev. Proc. 2009-20 and Rev. Proc. 2011-58)

Form 4684, Section D: Election to Deduct Federally-Declared Disaster Loss in Preceding Year

Part I, Section D: Election Statement

Complete Part I to make an election to deduct a loss attributable to a federally-declared disaster that occurred in a federally-declared disaster area and was sustained in the disaster year on the tax return for the preceding tax year.

Part II, Section D: Revocation of Prior Election

To revoke a prior election to deduct a loss attributable to a federally-declared disaster that occurred in a federally-declared disaster area and was sustained in the disaster year and reported on the tax return for the preceding tax year.

¹ Income-producing property is property held for investment, such as stocks, notes, bonds, gold, silver, vacant land, and works of art.

² Special rules are available for victims of criminal fraud. See *Form 4684, Section C: Theft Loss Deduction for Ponzi-Type Investment Scheme*, above.

³ If Form 4797 is not otherwise required, report the amount on line 4, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*. Write "Form 4684" next to the line.

⁴ Part or all of casualty or theft gain from certain trade, business, or income-producing property held for more than one year may be subject to recapture as ordinary income (such as gain attributable to depreciation). The recapture amount is calculated on Form 4797, *Sales of Business Property*, Part III, and the amount of recapture due to gain on casualty or loss is included with long-term gain in Section B, Part II of Form 4684. See *Depreciation Recapture—Sale of Business or Investment Property*, page 6-17.

continued from page 4-21

New for 2025 **Scam victims.** The IRS issued guidance concluding that some victims of scams, that do not qualify for the Ponzi Safe Harbor, may be allowed to deduct theft losses of income-producing property. The guidance includes examples of personal versus income-producing casualty and theft losses. (CCA 202511015)

See also *Theft Loss Deduction for Ponzi-Type Investment Scheme*, page 4-22.

When to deduct losses. Generally, casualty or theft losses are deductible in the later of:

- The tax year the casualty occurred or the theft was discovered.
- The tax year the reimbursement amount (if any) can reasonably be determined, or it is determined that no additional reimbursement will be received. [Reg. §1.165-1(d)]

However, a disaster loss may be treated differently. See *Disaster Losses*, below.

Nondeductible Losses

- Money or property misplaced or lost.
- Breakage of china, glassware, furniture, and similar items under normal conditions.
- Loss of property due to damage by a family pet.
- Damage from a fire if willfully set, or someone else was paid to set it.
- Car accident damage if caused by the taxpayer's willful negligence or willful act, or by someone acting for the taxpayer.
- Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects, or disease.
- A decline in market value of stock, caused by disclosure of accounting or other illegal misconduct by the officers or directors of the corporation that issues the stock, that was acquired on the open market for investment. Such loss may be deductible as a capital loss on Schedule D (Form 1040) if the stock is sold or exchanged or becomes completely worthless.

Note: Victims of fraudulent investment schemes can claim a theft loss deduction if certain conditions apply. See *Theft Loss Deduction for Ponzi-Type Investment Scheme*, page 4-22.

Disaster Losses

A disaster loss is a loss that occurs in an area determined by Presidential declaration to warrant federal disaster assistance and that is attributable to a federally-declared disaster. Disaster losses are not limited to individual personal-use property and may be claimed for individual, business, or income-producing property and by corporations, S corporations, and partnerships. Taxpayers who suffer a disaster loss are eligible to claim a casualty loss deduction and may elect to claim the loss in the preceding tax year.

Disaster year. The disaster year is the year the disaster occurred and a disaster loss is sustained, or later year if there is a reasonable prospect of recovery and that is when the taxpayer is actually reimbursed.

Example: In December 2024, Jim's car was destroyed in severe flooding (federally-declared disaster area) where he lives. Jim immediately filed a claim for reimbursement with his insurance company with the reasonable prospect he would recover the full amount of his loss. The claim was settled in January 2025 when his insurance company reimbursed him for only half of his loss.

The disaster year is 2025 because that is when it became reasonably certain whether Jim would be reimbursed. He can either deduct the unreimbursed loss on his tax return for his disaster year (2025) or make an election to deduct the unreimbursed loss on his tax return for the preceding year (2024).

Election to deduct disaster loss in preceding year. A taxpayer may elect to deduct a disaster loss in the tax year immediately

preceding the disaster year if the federally-declared disaster occurred in an area warranting public or individual assistance, or both. The election must be made within six months after the regular due date (without extension) for filing the original return for the disaster year.

Example: A calendar-year taxpayer has until October 15, 2026, to elect to claim a 2025 disaster loss on his or her 2024 tax return.

Revoking the election. The election is revoked by attaching completed Section D, Form 4684, to an amended return for the preceding year. The amended return must be filed on or before 90 days after the due date for making the election and on or before filing any return or amended return for the year that includes the disaster loss. The amended return (eliminating the previous disaster loss election) recalculates tax liability and the taxpayer must pay any tax and interest due as a result of the revocation.

Home made unsafe by disaster. If taxpayer's home is in a disaster area and the state or local government orders it torn down or moved because it is no longer safe to use as a home, the resulting loss in value is a disaster loss. The order must be issued within 120 days after the disaster declaration. Use the value of the home before the taxpayer moved it or tore it down as its FMV after the casualty.

Qualified disaster losses. A qualified disaster loss is an individual's casualty or theft loss of personal-use property that is attributable to:

- A major disaster declared by the President under section 401 of the Stafford Act in 2016,
- Hurricane Harvey,
- Tropical Storm Harvey,
- Hurricane Irma,
- Hurricane Maria,
- The California wildfires in 2017 and January 2018, or
- A major disaster that was declared by the President under section 401 of the Stafford Act and that occurred in 2018 and before December 21, 2019, and continued no later than January 19, 2020 (except those attributable to the California wildfires in January 2018 that received prior relief), and
- A major disaster that was declared by the President during the period between January 1, 2020 and September 2, 2025. Also, this disaster must have an incident period that began on or after December 28, 2019, and on or before July 4, 2025, and must have ended no later than August 3, 2025.

This does not include those losses attributable to any major disaster which was declared because of COVID-19.

Limits. The \$100 limit per casualty loss event increases to \$500, the 10% AGI limit does not apply, and the taxpayer can increase his or her standard deduction by the net qualified disaster loss instead of itemizing deductions. See *Net Qualified Disaster Loss*, page 4-26.

Note: Not all federally-declared disasters are considered qualified disaster losses. For any new information, go to www.fema.gov/disaster.

Loss on Deposits

Loss on deposits can occur when a bank, credit union, or other financial institution becomes insolvent or bankrupt.

Taxpayers cannot claim any miscellaneous itemized deductions, including the deduction for an ordinary loss on deposits in insolvent or bankrupt financial institutions. For information about deducting this type of loss as a casualty loss or as a nonbusiness bad debt, see IRS Pub. 550, *Investment Income and Expenses*.

Insurance and Other Reimbursements

If an insurance or other type of reimbursement is received, the reimbursement must be subtracted when computing the loss. There is no casualty or theft loss to the extent of the reimbursement.

If the taxpayer expects to be reimbursed for all or part of the loss, subtract the expected reimbursement when computing the loss even if the reimbursement is not received until a later year. See *Reimbursement received after deducting loss*, below.

Failure to file an insurance claim. If the property is covered by insurance, the taxpayer must file a timely insurance claim for reimbursement of the loss. Otherwise, the taxpayer cannot deduct the full unrecovered amount as a casualty or theft loss.

Types of reimbursements. Reimbursements other than insurance include the following.

Employer's emergency disaster fund. Reduce the loss by the amount of employer-provided emergency money used to replace or repair property on which a casualty loss deduction is claimed.

Cash gifts. Excludable cash gifts received as a disaster victim do not reduce the casualty loss even if the money is used to replace or repair property damaged by the disaster. There are no limits on how this money can be used.

Insurance payments for living expenses. Do not reduce a casualty loss by insurance payments received for living expenses when:

- Use of the taxpayer's main home is lost due to a casualty, or
- Government authorities do not allow the taxpayer access to the main home due to a casualty or threat of one.

If the insurance payments are more than the temporary increase in living expenses, include the excess in income on line 8z, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income*.

Example: Luke's house was destroyed in a federally-declared disaster area. While his house was being rebuilt, Luke lived in a hotel, dined out, and had other living expenses for the month equaling \$1,600. Normally Luke would have paid \$725 per month for these living expenses. The monthly insurance payments for living expenses were \$1,100. Luke reports \$225 as taxable income for each month he receives insurance payments.

Insurance payment for living expenses.....	\$1,100
Actual expenses.....	\$1,600
Normal living expenses.....	(725)
Temporary increase in living expenses.....	875
Amount includible in income.....	\$ 225

Tax year of inclusion. The taxable part of the insurance payment used for living expenses is reported as income in:

- The year the taxpayer regains use of the home or, if later,
- The year the taxable reimbursement is received.

Disaster relief. Food, medical supplies, and other forms of assistance do not reduce a casualty loss, unless they are replacements for lost or destroyed property.

Qualified disaster relief payments received for expenses incurred as a result of a federally-declared disaster are not taxable to the extent any expenses compensated by these payments are not otherwise compensated by insurance or other reimbursement.

Disaster unemployment assistance payments are taxable unemployment benefits.

Disaster relief grants under a state program to reimburse businesses for losses incurred because of a disaster are not excludable from gross income. The business may elect to postpone gain realized from the grant if it timely purchases qualifying property. (Rev. Rul. 2005-46)

Reimbursement received after deducting loss. If the casualty or theft loss was computed using an expected reimbursement, the tax return may have to be adjusted in the year the actual reimbursement was received.

Actual reimbursement less than expected. Include the difference as a loss with other losses (if any) in the year in which no more reimbursement is reasonably expected.

Actual reimbursement more than expected. The extra reimbursement may have to be included in income the year received. However, if any part of the original deduction did not reduce the taxpayer's tax for the earlier year, do not include that part of the reimbursement in income.

Calculating a Loss

To determine the deduction for a casualty or theft loss, first calculate the loss.

Amount of loss. Use the following steps to calculate the loss.

- 1) Determine the adjusted basis in the property before the loss.
- 2) Determine the decrease in fair market value (FMV) of the property as a result of the casualty or theft.
- 3) From the smaller of the amounts determined in (1) and (2), subtract any insurance or other reimbursement received or expected to be received.

Business and income producing property. The decrease in FMV is not considered in calculating the loss for property that is stolen or completely destroyed.

Separate computations. If a casualty or theft involves more than one item of property, compute the loss for each item separately. Then combine the losses to determine the total loss from that casualty or theft.

Exception: For personal-use property, the entire property (including improvements), is treated as one item when computing the loss.

Determining decrease in fair market value. Generally an appraisal is needed to determine the difference between the FMV of the property immediately before the casualty or theft and immediately afterwards. Other measures can also be used to establish certain decreases. See *Safe harbor methods*, below.

Cost of cleaning up or making repairs. Although FMV and the decrease in FMV are not the same as replacement cost or the cost of repairs, such costs may be evidence for the decrease in FMV if:

- The repairs are actually made.
- The repairs are necessary to restore the property to the condition it was in immediately before the casualty,
- The amount spent for repairs is not excessive,
- The repairs correct the casualty damage only, and
- The value of the property after the repairs is not, as a result of the repairs, more than the value of the property immediately before the casualty.

Landscaping. The cost of restoring landscaping to its original condition after a casualty may indicate the decrease in FMV. The loss may be measured by the cost of removing destroyed or damaged trees and shrubs, pruning and other measures taken to preserve damaged trees and shrubs, and replanting necessary to restore the property to its approximate value before the casualty, less any salvage value received.

Items not to consider for decrease in FMV. Do not consider the following items when establishing decrease in FMV of property because these items are not part of the casualty or theft loss event.

- Cost of protection against a casualty or theft.
- Related expenses (medical treatment, rental car, temporary housing).
- Replacement cost.
- Sentimental value.
- Decline in market value of property in or near casualty area.
- Costs of photographs and appraisals.

Some items above may be deductible if the property is business property.

Safe harbor methods. Certain safe harbors allow taxpayers to determine the decrease in FMV in other ways. (Rev. Proc. 2018-08)

Personal-use residential real property safe harbor methods. Does not include homes used as rental property or containing a home office. These safe harbor methods include:

- **Estimated repair cost method.** Lesser of two repair estimates by contractors. Limited to casualty losses of \$20,000 or less.
- **De minimis method.** Written good-faith estimate of the cost of repairs. Limited to casualty losses of \$5,000 or less.
- **Insurance method.** Report of estimated loss prepared by taxpayer's homeowners' or flood insurance company.
- **Contractor safe harbor (federally-declared disaster only).** Contract price for the repairs under signed binding contract.
- **Disaster loan appraisal (federally-declared disaster only).** Appraisal prepared to obtain a loan of federal funds or a loan guarantee from the federal government.

Personal belongings safe harbor methods. Includes items of tangible personal property not used in a trade or business. Does not include items that maintain or increase in value over time.

- **De minimis method.** Good faith estimate must include records and methodology. Limited to losses of \$5,000 or less.
- **Replacement cost safe harbor method (federally-declared disasters only).** Current cost to replace personal belongings with a new item reduced by 10% for each year owned. Must be used for all personal belongings, with certain exceptions. See *Personal Belongings Valuation Table* in Revenue Procedure 2018-08.

Hurricane-related safe harbor methods. For homes damaged or destroyed by certain 2017 hurricanes, see Rev. Proc. 2018-09.

Decreases to safe harbor loss amount. Reduce loss amount by value of any repairs provided by a third party at no cost (for example, work done by volunteers or via donations) and by the amount of any insurance, reimbursements, or other compensation received.

Reporting requirements. Attach a statement to Form 4684, *Casualties and Thefts*, stating the Revenue Procedure used to determine the amount of casualty loss.

Adjustments to basis. The basis of property affected by a casualty or theft loss may be decreased, increased, or both.

- Decrease basis by the amount of insurance or other reimbursement received and by any deductible loss.
- Increase basis by amount spent to repair or restore the property to its pre-casualty condition. For exceptions, see *Disaster relief*, page 4-24.

Casualty Gains

A taxpayer has a gain from casualty or theft if he or she receives an insurance payment or other reimbursement that is more than the adjusted basis of the property that is destroyed, damaged, or stolen. (IRC §1033)

The gain is computed as follows:

- The amount received, minus,
- The taxpayer's adjusted basis in the property at the time of casualty or theft.

Amount received. The amount received includes any money plus the value of any property received minus any expenses incurred in obtaining the reimbursement. It also includes any reimbursement used to pay off a mortgage or other lien on the damaged, destroyed, or stolen property.

Loss not attributable to a federally-declared disaster. The portion of personal casualty losses not attributable to a federally-declared disaster may be deducted to the extent the loss does not exceed personal casualty gains. Any remaining gain reduces the amount of deductible casualty loss.

Losses Not Attributable to a Federally-Declared Disaster

- 1) Add the amounts from line 12 of all Forms 4684 reporting losses not attributable to a federally-declared disaster ... 1) _____
- 2) Add the amounts from line 12 of all Forms 4684 reporting losses attributable to a federally-declared disaster.. 2) _____

3) Enter the smaller of line 1 or line 13 of Form 4684 3) _____

4) Add lines 2 and 3. Enter the result here and on line 14, Form 4684 4) _____

Postponement of gain. Gain is not reported in the following situations:

- The taxpayer receives a reimbursement in the form of property similar or related in service or use to the destroyed or stolen property, or
- The taxpayer chooses to postpone reporting the gain by buying property that is similar or related in service or use to the destroyed or stolen property within a specified time period. The gain can also be postponed if the taxpayer acquires at least 80% of a corporation owning property that is similar or related in service or use.

Replacement period. The replacement property must be purchased within two years after the close of the first tax year in which any part of the gain is realized.

Gain cannot be postponed. Gain cannot be postponed if the replacement property is acquired from a related person. This rule applies to:

- C corporations.
- Partnerships owned more than 50% by a C corporation(s).
- Any other taxpayer if the total realized gain for the year on all destroyed or stolen properties is more than \$100,000.

Replacement property. Replacement property must be purchased for the specific purpose of replacing the destroyed or stolen property.

- Replacement property must be similar, or related in service or use, to the property it replaces.
- Property acquired as a gift or inheritance does not qualify.
- Taxpayers do not have to use the same funds received as reimbursement for the old property to acquire the replacement property.

Basis in replacement property. If gain is postponed, the basis in the replacement property is the cost to acquire the replacement property less the amount of the postponed gain.

Example: Richard owns an auto repair shop. During the night, tools worth \$10,000 were stolen. Richard's adjusted basis in the tools was \$1,000. Insurance reimburses Richard for the value of the stolen tools, minus a \$500 deductible. Richard uses the \$9,500 insurance reimbursement, plus an additional \$500 out of pocket, to purchase new tools. His theft loss deduction is zero (the \$1,000 basis, minus the \$9,500 of insurance proceeds). His gain of \$8,500 (\$9,500 less the adjusted basis of \$1,000 in the stolen tools) is postponed. Richard's basis in the new tools is the \$10,000 total cost less the \$8,500 of postponed gain, or \$1,500.

Federally-declared disaster area. Any tangible replacement property used for business is treated as similar property if it replaces business or investment property damaged or destroyed in a federally-declared disaster area.

Example: Aaron owned a carpet cleaning business when his van carrying all his cleaning equipment was destroyed by floods in an area designated as a federally-declared disaster area. Aaron used insurance proceeds from the disaster to purchase a printing press for use in a new publishing business. The replacement property is considered similar property because it replaced business property destroyed in a federally-declared disaster area.

Reporting postponed gain on return. If a gain from a casualty or theft is postponed, attach a statement to the return with the following information. Do not complete Form 4684 for that year.

- Date and details of the casualty or theft.
- Insurance or other reimbursement received.
- How gain was calculated.

continued on next page
Itemized Deductions 4-25

- Information on the replacement property.
- Information on the postponed gain.
- Basis adjustment that reflects the postponed gain.
- Any gain reported as income.

If the replacement property is acquired after the tax return is filed for the year of gain, substitute information on the replacement property with a statement stating the taxpayer chooses to replace the property within the required replacement period. Attach the details on the replacement property to the return for the year in which replacement property is acquired.

Gain Realized on Home in Disaster Area

The following rules apply for taxpayers whose main home (including a rented home) is in a disaster area and the home or any of its contents were destroyed by the disaster.

- No gain is recognized on insurance proceeds received for unscheduled personal property that was part of the contents of the home (property not separately listed on the insurance policy).
- The home and scheduled property (personal property specifically listed on the insurance policy) are treated as one item of property. Gain from insurance reimbursement is recognized only to the extent that the proceeds exceed the cost of all replacement property, including a home and scheduled or unscheduled property, that is similar or related in use.
- In order to exclude gain from insurance reimbursement, the period in which the taxpayer must purchase replacement property is extended until four years after the end of the first tax year in which any part of the gain is realized.

Example: In 2025, Dave's main home and contents were destroyed by a tornado in a federally-declared disaster area. His homeowner's insurance policy covered the home, unscheduled property, and scheduled property including jewelry and a stamp collection. Dave received the following insurance proceeds.

Unscheduled property	\$25,000	No gain recognized
Jewelry	\$5,000	Considered one item of property. Replacement property can include scheduled or unscheduled property and a home. Any gain is postponed if at least \$215,000 of replacement property is purchased by 2029.
Stamp collection	\$10,000	
Home	\$200,000	

Basis in the replacement property equals its cost decreased by the amount of any postponed gain. See *Reporting postponed gain on return*, page 4-25.

Other Itemized Deductions

Cross References

- Schedule A (Form 1040), *Itemized Deductions*
- IRS Pub. 529, *Miscellaneous Deductions*
- IRC §67(b), *Miscellaneous itemized deductions*

Related Topics

- Hobby expenses, page 5-22
- Employee Business Expenses (Form 2106), page 8-5
- Depreciation, Tab 9

Net Qualified Disaster Loss

If a taxpayer has a net qualified disaster loss on line 15, Form 4684, *Casualties and Thefts*, and he or she is itemizing deductions, list the amount on the dotted line next to line 16, Schedule A (Form 1040) as *Net Qualified Disaster Loss* and include with the other miscellaneous deductions on line 16, Schedule A (Form 1040). Attach Form 4684. Do not include net qualified disaster losses on line 15, Schedule A (Form 1040).

Increased standard deduction. If a taxpayer has a net qualified disaster loss on line 15, Form 4684, *Casualties and Thefts*, and he or she is not itemizing deductions, then claim an increased standard deduction by:

- 1) Listing the amount from line 15, Form 4684 on the dotted line next to line 16, Schedule A (Form 1040) as *Net Qualified Disaster Loss*. Attach Form 4684.
- 2) Listing the standard deduction on the dotted line next to line 16, Schedule A (Form 1040) as *Standard Deduction Claimed With Qualified Disaster Loss*.
- 3) Combining the amounts on line 16, Schedule A (Form 1040) and enter on line 12e, Form 1040.

Other Itemized Deductions

List the type and amount of each expense on the dotted lines next to line 16, Schedule A (Form 1040). Deductions include:

- Amortizable premium on certain taxable bonds acquired before October 23, 1986.
- Casualty and theft losses from income-producing property (Forms 4684 or 4797).
- Federal estate tax on income in respect of a decedent (IRD). See *Deduction for Estate Tax Paid on IRD*, page 21-33.
- Gambling losses up to the amount of gambling winnings reported as income on line 8b, Schedule 1 (Form 1040). See *Gambling losses*, below.
- Impairment-related work expenses of persons with disabilities. See *Impairment-related work expenses*, below.
- Ordinary loss attributable to a contingent payment or inflation-indexed debt instrument (e.g., a Treasury Inflation-Protected Security).
- Losses from Ponzi-type investment schemes (Form 4684).
- Repayments of more than \$3,000 under a claim of right. See *Repayments*, Tab 3.
- Certain unrecovered investment in a pension. [IRC §72(b)(3)]

Gambling losses. Do not reduce gambling winnings by gambling losses and report the difference. Report the full amount of winnings as income and claim losses (up to the amount of winnings) only as an itemized deduction. An accurate record of losses and winnings must be kept. For casual gamblers, losses are limited to the actual cost of wagers.

Professional gamblers. Professional gamblers can also deduct travel expenses. Report income and expenses on Schedule C, *Profit or Loss From Business*. Expenses are limited to winnings [IRC §165(d)]. See *Professional gambler*, Tab 3.

MFJ return. Spouses filing a joint return can combine their gambling losses to the extent of their combined gambling gains.

Impairment-related work expenses. An employee with a physical or mental disability may deduct impairment-related work expenses by completing Form 2106, *Employee Business Expenses*.

- The disability must limit employment or substantially limit one or more major life activities, such as performing manual tasks, walking, speaking, breathing, learning, or working.
- Expenses must be ordinary and necessary to perform work satisfactorily. **Examples:** Attendant care services at the workplace or a reader for an employee who is visually impaired.

Miscellaneous Itemized Deductions

OBDDA The deduction for miscellaneous itemized deductions that were previously subject to the 2% AGI limitation is permanently disallowed. For tax years beginning after 2025, a deduction for educator expenses is allowed. For more information, see *What's New*, Tab 1.