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A Blunder Cost Two Donors a $665,000 Tax Deduction

TAX REPORT |

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The rules for charitable tax breaks depend on getting details right for smaller and larger donations

Small details can sink large tax deductions for charitable donations.

A case in point: Two recent Tax Court decisions involving first cousins who donated 13.3 acres of land to Highland City, Utah, in 2018. The judge ruled that Stephen Martin and Clint Martin, who were close growing up and later did business together, can't deduct $665,000 for the land donation. A limited liability company owned by the cousins acquired the land for $22,000 at a delinquent-tax auction in 2014.

The decisions didn't turn on the donation's valuation. Instead, the cousins lost their deduction because they lacked a proper "contemporaneous written acknowledgment," or CWA. That's tax jargon for a statement from the town saying the Martins didn't receive goods or services in exchange for their donation.

Charitable donors who want a deduction for cash or property worth $250 or more must have such statements. Congress enacted this requirement in the early '90s to stem taxpayer cheating, and the Internal Revenue Service uses it to attack donation deductions.

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"Because the statute is strict, it's low-hanging fruit for the IRS—so all donors should be sure to get their acknowledgments," says Amie Kuntz, a CPA in Iowa who chairs a committee at the American Institute of CPAs.

To be sure, the Martin cousins thought they had what was needed. Among other things, they had an appraisal valuing the property at $665,000 plus IRS Form 8283, which is required for such donations. They also sent a letter to the town of Highland City calling the property a "donation" and a "gift" to be maintained "in perpetuity as a preserved open space." The City Council noted in a report that there would be "no expenditure" to the town for the donation and accepted it.

The judge disagreed. She found that because the cousins didn't have a statement from the town specifically saying it provided no consideration in return for the donation, they couldn't take a deduction of $332,500 each.

Michael Hamersley, the attorney for Stephen Martin, says his client thinks there are material flaws in the decision and plans to petition for a rehearing. Clint Martin says he plans to join this petition.

Whatever the outcome, these cases raise a question: Do they add to Americans' perception that the IRS unfairly pursues well-meaning taxpayers who commit foot-faults of highly complex laws?

Alexander Reid, a tax specialist in nonprofit law with BakerHostetler, thinks so: "This is exactly what people assume the IRS does, and what they hate about it. The IRS needs to lighten up on paperwork requirements when it's clear the donor truly made the gift."

A good place to start, he says, would be for the agency to add a line to Form 8283 for the nonprofit recipient to check if no goods and services were received for the donation. This would help prevent oversights.

Meanwhile, the charitable-donation rules remain studded with confusing provisions, so here's more about CWAs and others.

Get your CWA or risk your deduction.

As noted above, donors who want to deduct a gift of cash or property of $250 or more need a written statement from the charity. It should give the value of cash or a description of property donated, and it should say whether the donor received goods or services in return. This should be in hand *before* filing the tax return.

What if someone donates $1,000 and is a guest at the charity's gala, and the dinner costs the group $200 per head? Then the charity's statement should specify that and the donor should subtract it from the total donation. In this case, the deduction would be $800.

However, token gifts of small value—like a mug—need not be subtracted. For 2026, such gifts can be up to $13.90.

The CWA requirement also applies to donors of Qualified Charitable Distributions from traditional IRAs.

Be aware of new rules for 2026. This year, non-itemizers—filers who don't list deductions on Schedule A—can deduct cash charitable donations up to $1,000 (singles) and $2,000 (joint filers). Those making a gift of $250 or more to one group will need CWAs, which may be a confusing surprise to many filers next year.

In addition, last year's tax changes tightened the rules for donors who itemize for 2026. Namely, they can't deduct an amount equal to 0.5% of their adjusted gross income (AGI).

So if a couple has $200,000 of AGI, they can deduct only the amount above $1,000, whether their total donations are $1,200 or $12,000. This will likely spur donors to forgo annual gifts and bunch them into larger, less frequent amounts.

For the highest-income filers who itemize, the tax benefit of charitable deductions is now capped at 35% rather than the top rate of 37%. That reduces their value by 5.4%, according to San Francisco CPA Richard Pon.

Get an appraisal, if necessary. Donations of noncash items worth more than $5,000 often require a qualified written appraisal in addition to a CWA, and the appraiser must sign the donor's IRS Form 8283. For some items, the appraisal

must be attached to the tax return.

Note: The rules detailing both appraisals and the qualifications of appraisers are stringent. For more details, see IRS Publication 526.

Remember the deduction limits. Deductions for charitable contributions are capped at 20%, 30%, 50% or 60% of the donor's AGI for most filers, depending on whether the gift is cash or property and what type of organization the recipient is.

In general, donors can deduct an amount up to 60% of their AGI if the contribution is cash and the recipient is an eligible charity. That drops to 30% of AGI if the donation is appreciated securities to a public charity. For donors giving appreciated property such as securities to certain private foundations, the limit drops to 20% of AGI. For more details, see IRS Publication 526.

Unused deductions can carry over and be used for up to five years, including the year of death, and then expire. They can't be used to reduce federal estate tax.