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Tax Newsletter

New Tax Angles to Charitable Donations Tax-saving opportunities in 2026

Do you normally take the standard deduction lately instead of itemizing deductions like you have in the past? You are not alone. Due to the recent Tax Cuts and Jobs Act (TCJA) that increased the standard deduction for both single and joint filers and downsized or eliminated other tax breaks, millions of individual taxpayers have changed the way they file.

Unfortunately, such a switch diminishes the desire of some taxpayers to contribute to charitable causes, since the tax benefits for those taking the standard deduction have been virtually nonexistent. But not anymore. The new law passed last year—the One Big Beautiful Bill Act (OBBBA)—provides significant tax rewards to non-itemizers for their charitable donations.

Background: Generally, you can deduct your monetary contributions to qualified charitable organizations, up to a percentage of your adjusted gross income (AGI). The current allowable percentage is 60% of AGI. Any remainder may be carried over for up to five years. Other special rules apply to charitable gifts of property.

Previously (with only minor temporary exceptions), you could claim a charitable deduction only if you itemized deductions on your personal tax return. If you opted for the standard deduction, you received no deduction at all, regardless of the size of the gift. Thus, since 2018 when the TCJA generally took effect, fewer taxpayers are benefitting from their charitable donations.

Key changes: There are several new rules in play. Beginning in 2026, charitable deductions for itemizers are limited to the excess above 0.5% of AGI. In addition to this tax “haircut,” the OBBBA extends a modified version of the “Pease rule” reducing itemized deductions for certain high-income taxpayers, including charitable donations.

On the other side of the coin, non-itemizers can now deduct up \$1,000 of their monetary charitable donations, also beginning in 2026. The maximum is doubled to \$2,000 for joint filers. Unlike the charitable deduction for itemizers, there is no tax haircut for non-itemizers.

Example: A couple expects to file a joint return in 2026 claiming the standard deduction. They donate \$2,500 to their favorite charities this year. As a result, they can deduct \$2,000 on their 2026 tax return. The extra \$500 cannot be carried over to the 2027 tax year. However, if the couple contributes \$2,000 in 2026, they may deduct the full amount.

Accordingly, taxpayers may adjust their contributions throughout the year, depending on their circumstances. Remember that the usual rules for substantiating monetary charitable deductions still apply.

Donations must be made in cash or cash-like form to qualified charitable organizations. This includes checks, credit card charges, electronic payments and payroll deductions to IRS-approved charities. As with other cash contributions where the total exceeds \$250, you must keep documentation such as bank statements, cancelled checks, electronic payment confirmations and receipts as proof.

Under the latest rules, the usual strategy for taxpayers is to “bunch” donations in the tax year in which they will do the most tax good. For instance, if you plan to make a large contribution well in excess of \$2,000 in December and you may be itemizing deductions next year, you might postpone your contribution to January to maximize the tax benefits.

Caveat: Of course, there may be other non-tax reasons for making contributions at certain times. Consult with your tax professional concerning your situation.

How to Invade Your IRA Early Exceptions to usual tax penalty

Generally, you will owe a 10% tax penalty if you make a withdrawal from a traditional IRA before age 59½, on top of the regular income tax liability. But the tax code is riddled with exceptions to the penalty. Although most exceptions mirror those allowed for withdrawals from qualified retirement plans, like 401(k) plans, a handful of exceptions apply only to IRAs.

Keeping that in mind, following is a brief rundown on some of the major exceptions to the 10% tax penalty currently available to IRA owners.

- Distributions made to a beneficiary or estate on account of the IRA owner's death;
- Distributions made because you are totally and permanently disabled;
- Distributions made as part of a series of substantially equal periodic payments for your life (or life expectancy) or the joint lives (or joint life expectancies) of you and a designated beneficiary;
- Distributions to the extent you have deductible medical expenses exceeding 10% (7.5% if you or your spouse are age 65 or older) of your adjusted gross income (AGI);
- Distributions made due to an IRS levy of the plan under code section 6331;
- Distributions that are qualified military reservist distributions;
- Distributions to domestic abuse victims of up to the lesser of 50% of the account balance or \$10,000 (indexed to \$10,500 in 2026);
- Distributions for qualified first-time homebuyer expenses; and
- Distributions for qualified higher education expenses.

All these exceptions are available for distributions from qualified retirement plans except the last two for qualified first-time homebuyer expenses and higher education expenses. Thus, these two exceptions require some further explanation.

First-time homebuyer expenses: The money must be used to fund the acquisition, building or rebuilding of a new home before retirement. But this technically does not have to be your “first home.” The rules only require that you have not owned a home as your principal residence in the last two years. Furthermore, the homebuyer does not have to be the IRA participant. A spouse, child, parent or other family member may qualify. However, the tax law caps the tax break for qualified homebuyer expenses at a *lifetime limit* of \$10,000.

Higher education expenses: The cost of college is a tough nut to crack, but this exception may provide some relief. It applies to amounts spent on tuition, fees, books, supplies and equipment required for enrollment or attendance at an eligible educational institution.

Plus, the exception applies to room-and-board if the student is at least a half-time student. This higher education exception is available for amounts paid for yourself, your spouse or a child or grandchild.

Tax reminder: In any event, do not forget that you still owe income tax on the portion of the IRA distribution representing deductible contributions and earnings, even if one of the exceptions applies. Factor the regular tax into the equation.

Take Healthy Deduction for LTCI

Be aware of age-based limits

Long-term care insurance (LTCI) can be beneficial if you can qualify for coverage. It can help defray the costs of a lengthy stay in a nursing home or other facility. But LTCI is often difficult to obtain, especially if you are older or you have previously experienced severe medical conditions.

Can you deduct the cost of LTCI on your federal tax return? The answer is “sort of.” If certain requirements are met, you may write off part of the cost of LTCI, but not all of it.

Background: Under current law, you can deduct only the amount of your unreimbursed medical expenses that exceed 7.5% of your adjusted gross income (AGI) if you itemize deductions. In other words, you cannot deduct any cost if you claim the standard deduction. The annual threshold has been adjusted in recent years but is now permanently set at 7.5% of AGI.

For example, if you have an AGI of \$100,000 and incur \$10,000 in deductible medical expenses in 2026, your deduction is limited to \$2,500. Conversely, if you have \$7,000 in medical expenses, your deduction is zero.

To qualify as a deductible medical expense, payment must be made for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for treatments affecting any structure or function of the body. This covers much more than just visits to a physician, dentist or hospital. It also includes after-tax health insurance premiums paid by employees and a portion of premiums paid personally for LTCI policies.

But there is a catch. The IRS strictly limits the amount of LTCI you can deduct based on your age. This limit is indexed annually but increases have been relatively modest in recent years. Below is a comparison of the changes from 2025 to 2026.

Age at end of year	Limit for 2025	Limit for 2026
40 and under	\$480	\$500
41 to 50	\$900	\$930
51 to 60	\$1,800	\$1,860
61 to 70	\$4,810	\$4,960
Over 70	\$6,020	\$6,200

Therefore, if you are 55 years old and paying \$5,000 in LTCI for yourself in 2026, the maximum medical deduction allowed for this purpose is \$1,860.

Note that your qualified medical expenses may also include the cost of LTCI coverage you pay on behalf of a relative. For example, you might be paying premiums to insure an elderly parent. If you provide more than half of the relative’s annual support, you can generally add this cost to your medical deduction, regardless of the amount of income they earn. Of course, the deductible portion of the payment is still based on the insured’s age.

Tax reminder: About half the states also allow a deduction or credit for LTCI that may offset state income tax liability. Consult with your professional tax advisors regarding your situation.

Tax Clarity on March Madness

Did you recently submit a winning “bracket” for one of the NCAA basketball tournaments? Despite your good fortune, there is one downside: The IRS treats such winnings as taxable income. Typically, you will receive a Form W-2G reporting the amount to the IRS.

Silver tax lining: At least you can deduct your annual gambling losses up to the amount of your gambling winnings. But the new One Big Beautiful Bill Act (OBBBA) limits the deduction to 90% of winnings, beginning in 2026.

The same basic rules also apply to income from other gambling activities like the lottery or casino winnings.

Facts and Figures

Timely points of particular interest

Tips From IRS—The IRS has issued final regulations relating to the tax deduction for tips created by the One Big Beautiful Bill Act (OBBBA). Under the OBBBA, workers can deduct up to \$25,000 in tips, beginning in 2025, if they work in an industry where tipping is commonplace. The final regulations list more than 70 occupations of tipped workers, ranging from bartenders to water taxi operators, in addition to clarifying other rules. Note: The deduction is phased out for high-income taxpayers.

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