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The Week in Public Finance: Can the IRS Stop States' Tax Reform Workarounds?

The IRS wants to thwart state efforts to avoid the new cap on state and local tax deductions. It's unclear whether that would be legal — or effective.

Now that three states have created workarounds to a part of last year's federal tax overhaul, the Internal Revenue Service (IRS) is trying to stop others from following.

Last week, the IRS announced that it would propose regulations that address attempts by states to help their residents avoid the new federal cap on state and local tax deductions. So far, California, New Jersey and New York are nearing passage of laws that would allow residents who owe more than $10,000 in state and local taxes to pay the remainder into a state charitable trust. Because charitable contributions are still tax-deductible under federal law, the state trust contribution offers residents a workaround.

It's no surprise, says Jared Walczak, a senior analyst at the conservative-leaning Tax Foundation, that the IRS is striking back. "The IRS was never going to be fooled by these workarounds."

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BY LIZ FARMER | JUNE 1, 2018