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IRS, Treasury Take Icy View of State Workarounds to Capped Deduction.

A notice issued on Wednesday could have implications for some recently passed state laws.

The Internal Revenue Service and the Treasury Department are calling into question the leeway states will have to provide taxpayers with ways to circumvent a recently imposed federal limit on state and local tax deductions.

Last year's Republican-led overhaul of the nation's tax code capped at \$10,000 a deduction households can claim on their federal tax returns for state and local property, income and sales taxes they have paid.

Since then, lawmakers in some states have looked for legislative workarounds to the cap for their residents.

But, on Wednesday, the IRS and Treasury signaled they could take a dim view of states taking this sort of action.

The agencies [issued a notice](#) saying that they plan to propose regulations to "help taxpayers understand the relationship between federal charitable contribution deductions and the new statutory limitation on the deduction of state and local taxes."

"Taxpayers should be mindful that federal law controls the proper characterization of payments for federal income tax purposes," the notice says.

Jared Walczak, a senior policy analyst at the Tax Foundation [wrote Wednesday](#) that the move by the IRS and Treasury is "clearly bad news for the charitable contributions in lieu of taxes approach."

That approach involves states allowing taxpayers to effectively pay their taxes in the form of "charitable contributions," which would be credited against the taxes they owe at the state and local level, but still fully deducted at the federal level.

[New Jersey](#) is one state that turned to this option.

Other states, including [New York](#) and [Connecticut](#), have come up with more elaborate alternatives to get around the cap. Walczak noted that the effect the new regulations would have on these workarounds remains unclear, but that they could also be at risk.

The IRS and Treasury did not indicate specifically when the regulations would be released.

New York Gov. Andrew Cuomo, a Democrat and a leading critic of last year's tax revamp, issued a statement on Wednesday slamming the pending regulations. "We have been and will continue to fight against this economic missile with every fiber of our being," he said.

"The IRS should not be used as a political weapon," he added.

Capping the state and local tax, or SALT, deduction, helped the lawmakers who crafted the tax law partially offset the loss of billions of dollars in revenues expected in the coming years due to corporate and individual tax cuts.

State and local government groups fought against the elimination of the tax break, and characterized it as a threat to their ability to levy taxes in order to pay for expenses like schools, infrastructure and public services.

Route Fifty

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