



## IRS Notice on State and Local Tax Deductions

**05.25.2018**

On Wednesday, May 23, 2018, the U.S. Department of the Treasury and the IRS issued Notice 2018-54 (the "Notice"), stating they will propose regulations to address the deductibility of state and local tax payments for purposes of federal income taxes. The Notice makes clear that federal law controls the characterization of the payments for federal income tax purposes, regardless of a state's characterization of such payments.

The legislation previously known as the "Tax Cuts and Jobs Act" (the "Act"), which President Trump signed into law on December 22, 2017, limits the amount of state and local taxes an individual taxpayer may deduct in one calendar year to \$10,000. This limitation applies for tax years beginning January 1, 2018 and before January 1, 2026.

In response to this change under the Act, state legislatures such as New York and New Jersey have adopted or considered legislation which allows individual taxpayers to make transfers to specified nonprofit entities or funds controlled by state and local governments in exchange for credits against state and local taxes. The goal of such legislation is to allow individual taxpayers to characterize these transfers as deductible charitable contributions for federal income tax purposes, while satisfying state and local taxes.

The Notice reminds taxpayers that federal law controls the characterization of state and local tax payments for federal income tax purposes, regardless of any such state legislation. The Notice also provides that the proposed regulations will assist taxpayers in understanding the relationship between federal charitable contribution deductions and the \$10,000 limit on the deduction for state and local tax payments under the Act.

Williams Mullen will continue to monitor state legislation and the proposed IRS regulations on this topic.

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