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Estate Planning Update Summer 2019 - IRS Bars Attempts to Circumvent $10,000 Cap on Salt Deductions

In an effort to mitigate the impact of the $10,000 limit on federal deductions for state and local taxes (SALT) introduced by the Tax Cuts and Jobs Act, some states began offering their taxpayers state tax credits in connection with contributions made to state-organized charitable funds, permitting taxpayers to effectively turn otherwise nondeductible state tax payments into deductible charitable contributions. In response, the IRS released final regulations on June 11 designed to prohibit taxpayers from circumventing this type of SALT limitation. The new regulations limit a taxpayer's federal tax deduction to the difference between the amount of the charitable donation made and state tax credit received. For example, a taxpayer who makes a $100,000 charitable donation and receives an $80,000 state tax credit in return would only be allowed a federal charitable deduction of $20,000. Notably, the new regulations do not address other types of SALT limitation workarounds, such as those recently enacted in Connecticut and New York. However, an IRS agent indicated in March that the IRS is looking at prohibiting such workarounds as well.