

# Treasury Issues Final Regulations on Charitable Contributions and State and Local Tax Credits

June 11, 2019

**Washington** – The U.S. Department of the Treasury today issued final rules and additional guidance on the federal income tax treatment of payments made under state and local tax credit programs. The regulations prevent charitable contributions made in exchange for state tax credits from circumventing the new limitation on state and local tax deductions.

The Tax Cuts and Jobs Act of 2017 (TCJA) limits the amount of state and local taxes (SALT) an individual can deduct to \$10,000 a year. Without the regulations taxpayers would be able to use state tax credit programs to circumvent the TCJA limit.

The [regulation](#) is based on a longstanding principle of tax law: When a taxpayer receives a valuable benefit in return for a donation to charity, the taxpayer can deduct only the net value of the donation as a charitable contribution. The rule applies that principle, known as the quid pro quo principle, to state tax benefits provided to a donor in return for contributions.

For instance, if a state grants a 70 percent state tax credit pursuant to a state tax credit program, and an itemizing taxpayer contributes \$1,000 pursuant to that program, the taxpayer receives a \$700 state tax credit. The taxpayer must reduce the \$1,000 contribution deduction by the \$700 state tax credit, leaving a federal charitable contribution deduction of \$300.

The regulations provide exceptions for dollar-for-dollar state tax deductions and for tax credits of no more than 15 percent of the amount transferred. Thus, a taxpayer who receives a state tax deduction of \$1,000 for a contribution of \$1,000 is not required to reduce the federal income tax deduction to take into account the state tax deduction; and a taxpayer who makes a \$1,000 contribution is not required to reduce the \$1,000 federal income tax deduction if the state or local tax credit received or expected to be received is no more than \$150. The final regulations are effective August 11, 2019, but apply to contributions made after August 27, 2018.

In response to comments on the proposed regulations regarding potential negative impacts, Treasury and the IRS are also issued a [notice](#)  providing a safe harbor that, subject to certain limitations (including the SALT cap), allows individual taxpayers who itemize deductions to treat

payments made in exchange for tax credits as payments of state or local taxes for federal income tax purposes. Eligible taxpayers can use the safe harbor to determine their SALT deduction for their 2018 return and can file an amended return if they have already filed.

Treasury will continue to study this issue and will consider issuing future guidance based on comments received.

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