



Donations to State Tax Credit Programs – Immediate Action May Be Needed

Late on Thursday, August 23, 2018, the Internal Revenue Service issued proposed regulations regarding the federal tax treatment of donations to programs providing state or local tax credits in exchange for charitable contributions. Examples of these are the Georgia education expense credit, the Georgia rural hospital credit, and the South Carolina education credit programs.

The proposed regulations require taxpayers who donate to state tax credit programs to reduce their charitable contribution deductions by the value of the state tax credits they receive. The proposed regulations are effective for contributions made after Monday, August 27, 2018. **If you registered and have approval for a 2018 donation to a state tax credit program and have not yet made the donation, you should strongly consider making your donation before the end of the day on Monday August 27, if you wish to benefit from a charitable deduction for 2018.** If you contributed to a state tax credit program prior to August 27, 2018, the proposed regulations do not impact your previous donations and you do not need to take any immediate action.

Here's an example of how these new rules operate. Let's suppose that you donate \$100 to a state tax credit program and receive a credit of \$100 to offset your state tax liability. Under the proposed regulations, your charitable contribution deduction is zero - \$100 donated to the tax credit program less \$100 tax credit received. Prior to these proposed regulations, you would have received a charitable contribution deduction of \$100 in addition to receiving a state tax credit of \$100.

It's widely believed that the IRS has issued these proposed regulations to block attempts by New York, New Jersey, and Connecticut to avoid the \$10,000 limit on the deduction for state and local taxes brought in with the Tax Cuts and Jobs Act (TCJA). Back in May, the IRS published Notice 2018-54 stating its intention to issue proposed regulations on this matter. While the IRS may be primarily aiming at these other states, taxpayers who have donated to the Georgia education expense credit and the rural hospital tax credit, which existed before the enactment of the TCJA, are impacted.

Please keep in mind that these are currently proposed regulations. Comments about the proposed regulations may be submitted to IRS until October 11, 2018, and a public hearing is scheduled for November 5, 2018. As with any proposed regulations, there may be significant changes before they become final.

Please contact your Windham Brannon tax advisor for more information.

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