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Dear Clients and Friends:

The following is an important tax development that has occurred in 2019 that may affect you.

Final regulations shoot down states' SALT limitation workaround. For 2018 through 2025, the Tax Cuts and Jobs Act (TCJA) limits an individual taxpayer's annual SALT (state and local tax) deductions to a maximum of \$10,000, with no carryover for taxes paid in excess of that amount. (The SALT deduction limit doesn't apply to property taxes paid by a trade or business or in connection with the production of income.) As a result, many taxpayers won't get a full federal income tax deduction for their payments of state and local taxes. Following the TCJA's passage, some high-tax states implemented workarounds to mitigate the effect of the SALT deduction limit for their residents. One method used was to set up charitable funds to which taxpayers can contribute and receive a tax credit in exchange. The IRS has issued final regulations, which generally apply to contributions after August 27, 2018, that effectively kill this workaround. The regulations provide that a taxpayer who makes payments to, or transfers property to, an entity eligible to receive tax deductible contributions must reduce his or her charitable deduction by the amount of any state or local tax credit the taxpayer receives or expects to receive.

The IRS also issued a safe harbor that allows an individual who itemizes deductions to treat, in certain circumstances, payments that are or will be disallowed as charitable contribution deductions under the final regulations, as state or local taxes for federal income tax purposes. Eligible taxpayers can use this safe harbor to determine their SALT deduction on their tax-year 2018 return. Those who have already filed may be able to claim a greater SALT deduction by filing an amended return, Form 1040-X, if they have not already claimed the \$10,000 maximum amount.

If you have any questions regarding these tax changes, please call our office. We are here to assist you.

Very truly yours,

Thomas, Zurcher & White, P.A.