Congress made a slight concession to residents of high-tax states by including a limited deduction for state and local taxes (SALT), which includes state income, sales ...

Ken Berry, JD • Dec. 28, 2017

Before the new tax reform law – the Tax Cuts and Jobs Act (TCJA) — was finalized, Congress made a slight concession to residents of high-tax states by including a limited deduction for state and local taxes (SALT), which includes state income, sales and property taxes. Now the IRS has issued guidelines on when prepayments of property taxes can be deducted on 2017 returns (IR-2017-210, 12/27/17).

Under the TCJA, the standard deduction was essentially doubled to $12,000 for single filers and $24,000 to joint filers, while many itemized deduction were repealed or reduced. This can have a profound effect on tax return filings. The changes generally are effective in 2018 and sunset after 2025.

Initially, the deduction for SALT would have been eliminated, but in a late reprieve, a maximum annual deduction of $10,000 was approved. The deduction can consist of either (1) state and local property taxes or (2) state and local income taxes or sales taxes or (3) a combination of the first two. Thus, if you reside in a state where property taxes and income taxes are high – such as California, New York and New Jersey — you realize little tax benefit.

What's more, due to the increased standard deduction and cutback in itemized deductions, many taxpayers who itemized in the past will be opting for the standard deduction instead in 2018. As a result, they will realize zero tax benefit from their SALT payments.

Due to this sea change, there's been mad rush to prepay property taxes at the end of

haven't been assessed prior to 2018 aren't deductible in 2017. State or local law determines whether and when a property tax is assessed (i.e., when the taxpayer becomes liable for the property tax imposed.)

The IRS provides two examples to illustrate these points.

Example 1: County A assesses property tax on July 1, 2017 for the period July 1, 2017 – June 30, 2018. On July 31, 2017, County A sends notices to residents notifying them of the assessment and billing the property tax in two installments, with the first installment due September 30, 2017 and the second installment due January 31, 2018. Assuming a taxpayer has paid the first installment in 2017, he or she may choose to pay the second installment on December 31, 2017, and deduct this prepayment on a 2017 return.

Example 2: County B also assesses and bills its residents for property taxes on July 1, 2017, for the period July 1, 2017 – June 30, 2018. It intends to make the usual assessment in July 2018 for the period July 1, 2018 – June 30, 2019. However, because county residents wish to prepay their 2018-2019 property taxes in 2017, County B has revised its computer systems to accept prepayment of property taxes for the 2018-2019 property tax year. Taxpayers who prepay their 2018-2019 property taxes in 2017 can't deduct the prepayment on their federal tax returns because the county won't assess the property tax for the 2018-2019 tax year until July 1, 2018.

There is precious little time left for taxpayers to prepay property taxes and increase their deduction for 2017. Convey this important tax message to your clients.

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