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Local Tax Credits

The Department of the Treasury and the IRS have issued proposed regulations providing rules on the availability of charitable contribution deductions when the taxpayer receives or expects to receive a corresponding state or local tax credit.

Aug. 24, 2018

The Department of the Treasury and the IRS have issued proposed regulations providing rules on the availability of charitable contribution deductions when the taxpayer receives or expects to receive a corresponding state or local tax credit.

The proposed regulations issued today are designed to clarify the relationship between state and local tax credits and the federal tax rules for charitable contribution deductions. The proposed regulations are available in the [Federal Register](#).

Under the proposed regulations, a taxpayer who makes payments or transfers property to an entity eligible to receive tax deductible contributions must reduce their charitable deduction by the amount of any state or local tax credit the taxpayer receives or expects to receive.

For example, if a state grants a 70 percent state tax credit and the taxpayer pays \$1,000 to an eligible entity, the taxpayer receives a \$700 state tax credit. The taxpayer must reduce the \$1,000 contribution by the \$700 state tax credit, leaving an allowable contribution deduction of \$300 on the taxpayer's federal income tax return. The proposed regulations also apply to payments made by trusts or decedents' estates in determining the amount of their contribution deduction.

The proposed regulations provide exceptions for dollar-for-dollar state tax deductions and for tax credits of no more than 15 percent of the payment amount or of the fair market value of the property transferred. A taxpayer who makes a \$1,000

contribution to an eligible entity is not required to reduce the \$1,000 deduction on

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