year under a provision scheduled to last through 2025.

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Starting in 2018, the Tax Cuts and Jobs Act (TCJA) put taxpayers on a strict tax diet for state and local taxes (SALT). Essentially, it limits the total deduction to $10,000 a year under a provision scheduled to last through 2025. But the new SALT limit also has led to much confusion over the tax implications for state and local tax income tax refunds.

Now the IRS has clarified matters in new Revenue Ruling 2019-11. In some cases, a refund may no longer be taxable.

[This is the first in a series on ramifications of the TCJA and how the act is now playing out, being interpreted, and being defined.]

First, here's some background information. Prior to the TCJA, you could deduct any

deduction instead of itemizing, even if they have consistently itemized in the past, or lose some of the tax benefit of their SALT payments when they itemize.

Here's the wrinkle: A long-standing tax rule provides that taxpayers must pay tax on state and local income tax refunds they receive to the extent they benefit tax-wise from the refund. In the past, this rule often applied to itemizers with large state and/or local tax bills. The refund was then taxable in the year in which it was received.

However, in the new tax environment created by the TCJA, many taxpayers who are affected by the SALT limit—those who pay more in SALT than they are able to deduct—may not have to pay tax on the full state or local income tax refund in the following year. An important element is determining the amount the taxpayer would have deducted had he or she only paid the actual state and local tax liability—in other words, no refund and no balance due.

The new ruling provides four key examples. In one example, a single taxpayer itemized and claimed itemized deductions totaling $15,000 for 2018. The taxpayer entered the maximum $10,000 SALT deduction on the 2018 return. In 2019, the taxpayer received a $750 refund of state income taxes paid in 2018.

Due to the new limit, the taxpayer's 2018 SALT deduction would still have been $10,000, even if it state taxes weren't overpaid. Thus, the taxpayer didn't receive a tax benefit on the 2018 federal income tax return from the overpayment of state income tax in 2018. Accordingly, the $750 state income tax refund received in 2019 is not taxable on a 2019 return.

For more details, you can read Rev. Rul. 2019 11 in its entirety at https://www.irs.gov/pub/irs-drop/rr-19-11.pdf. Expect that the IRS will have more to say on the SALT limit and tangential issues in the near future.