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IRS issues notice on state and local tax deductions

WASHINGTON — The U.S. Department of the Treasury and the Internal Revenue Service issued a notice today stating that proposed regulations will be issued addressing the deductibility of state and local tax payments for federal income tax purposes. [Notice 2018-54](#) also informs taxpayers that federal law controls the characterization of the payments for federal income tax purposes regardless of the characterization of the payments under state law.

The Tax Cuts and Jobs Act (TCJA) limited the amount of state and local taxes an individual can deduct in a calendar year to \$10,000. In response to this new limitation, some state legislatures have adopted or are considering legislative proposals allowing taxpayers to make payments to specified entities in exchange for a tax credit against state and local taxes owed.

The upcoming proposed regulations, to be issued in the near future, will help taxpayers understand the relationship between federal charitable contribution deductions and the new statutory limitation on the deduction of state and local taxes.

Taxpayers should also be aware the U.S. Department of the Treasury and the Internal Revenue Service are continuing to monitor other legislative proposals being considered to ensure that federal law controls the characterization of deductions for federal income tax filings.

The limitation imposed by the TCJA applies to taxable years beginning after Dec. 31, 2017 and before Jan. 1, 2026.

Updates on the implementation of the TCJA can be found on the [Tax Reform page](#) of IRS.gov.

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