# Urgent!! IRS may negate Georgia 100% Tax Credit program for rural hospitals

1 message

**theleadershipgrp@mindspring.com** <theleadershipgrp@mindspring.com> Mon, Aug 27, 2018 at 6:44 AM
To: theleadershipgrp@mindspring.com

HomeTown Health CEO's and Senior Staff:

Reference: Urgent!! IRS may negate Georgia 100% Tax Credit program for rural hospitals

Please see the articles below that spell out the plans by the IRS to potentially negate the Georgia 100% Tax Credit. This potential action by the IRS can have devastating impact on the Georgia 100% Tax Credit. There are many unanswered questions the least of which is when we will find out officially when a decision will be made and will it apply to 2018 funds pledged and received.

Action required:

1. Google the following inquiry and read as many updates as possible - "**Treasury, IRS issue proposed regulations on charitable contributions and state and local tax credits**"
2. Read the Federal Register - Federal Register.
3. Seek immediate advice and counsel from your accountants on what to do.

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## Issue Number: IR-2018-172

## Inside This Issue

# Treasury, IRS issue proposed regulations on charitable contributions and state and local tax credits

WASHINGTON — Today the U.S. Department of the Treasury and the Internal Revenue Service 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 the taxpayer's federal income tax return if the state or local tax credit received or expected to be received is no more than $150.

Treasury and IRS welcome public comments on these proposed regulations. For details on submitting comments, see the proposed regulations.

Updates on the implementation of the TCJA can be found on the Tax Reform page of IRS.gov.

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# Treasury, IRS move to block blue state workarounds on tax caps

- The Tax Cuts and Jobs Act capped the state and local tax deduction, allowing filers to claim only up to $10,000 on their federal tax return.
- Blue states have come up with workarounds to help offset the deduction cap, including allowing municipalities to set up charitable funds to support certain public services.
- New York, New Jersey, Connecticut and Maryland have also filed suit against the Treasury and IRS, claiming the

SALT cap is unconstitutional.

Darla Mercado | @darla_mercado

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Andrew Harrer | Bloomberg Getty Images

Steven Mnuchin, U.S. Treasury secretary, speaks during the SelectUSA Investment Summit in National Harbor, Maryland, U.S., on Thursday, June 21, 2018.

The Treasury and IRS have issued new rules that will block blue states' attempts to circumvent the new $10,000 cap on state and local tax deductions.

The proposed regulation was released Thursday afternoon.

The $10,000 limit on the so-called SALT deduction was part of the Tax Cuts and Jobs Act, an overhaul of the tax code, which was passed last year.

New York, New Jersey and Connecticut — among the states with the highest property taxes — had put legislation in place to help taxpayers bypass the limit on the deduction.

Those plans included permitting municipalities to set up charitable funds and allow taxpayers to contribute to them.

"Congress limited the deduction for state and local taxes that predominantly benefited high-income earners to help pay for major tax cuts for American families," said Treasury Secretary Steven T. Mnuchin, in a statement.

## IRS to issue rules for treatment of state and local taxes  2:58 PM ET Thu, 24 May 2018 | 02:40

"The proposed rule will uphold that limitation by preventing attempts to convert tax payments into charitable contributions," he said.

In addition to permanently trimming the top corporate rate to 21 percent from 35 percent, lawmakers also slashed rates on individuals across the board and roughly doubled the standard deduction — but those changes are in effect only from 2018 to the end of 2025.

The new tax law also eliminated personal exemptions and cut most deductions. Though the SALT deduction remained, the $10,000 limit means that homeowners in states with the highest property taxes and home values will feel the brunt.

In 2015, the average SALT deduction for New Yorkers who claimed the break was more than $22,000, according to the Tax Policy Center. In New Jersey, the average deduction was around $18,000.

See below for more details.

SALT in the woundThe $10,000 cap on state and local taxes are a blow tojust a handful of states. Hover for details.AKALARAZCACOCTDCDEFLGAHIIAIDIL INKSKYLAMAMDMEMIMNMOMSMTNCNDNENHNJNMNVNYOHOKORPARISCSDTNTXUT VAVTWAWIWVWYGraphic by Nick Wells | Source: IRS via the Tax Policy Center

**Massachusetts**

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Percent of returns with deduction: 2.8%
Average amount claimed: $15,572
Percent of federal income taxes paid: 3.4%
Deduction as share of state AGI: 6.5%

## Legal battle

New York, New Jersey and Connecticut have passed legislation that would permit residents to get around the SALT cap.

One of those concepts includes permitting municipalities to establish charitable funds for contributions from taxpayers. Those taxpayers would be able to claim a state tax credit. If they itemize, they may claim the charitable contribution on their tax returns. The IRS proposal would largely bar those moves.

These three states, along with Maryland, have also filed suit against Treasury and the IRS, alleging that the $10,000 limitation on SALT deductions is an "unconstitutional assault on states' sovereign choices."

## No double-dipping

The proposed regulation states that if a taxpayer receives a benefit — say, a state or local tax credit — for having made a charitable contribution, then that taxpayer must reduce the amount claimed as a charitable deduction on his or her federal return.

If the tax credit received is less than 15 percent, then the tax payer would get the full charitable deduction.

"Imagine that you made a $100,000 contribution and you receive a 75 percent state tax credit," said Jared Walczak, a senior policy analyst at the Tax Foundation. "Your contribution cost is only $25,000 and the state is giving you back $75,000."

"You can take the $25,000 as a charitable deduction on your federal tax return, but not the $100,000," he said.

## Red state programs

Lawyers warned that red states' charitable tax-credit programs weren't necessarily protected by the proposed rule.

A research paper authored by a group of tax law academics called out more than 100 of these programs in 33 states, including plans that cover conservation easements and private school tuition scholarship programs.

For instance, businesses and individuals who pay taxes in South Carolina can donate to Exceptional SC, a scholarship fund for kids with exceptional needs, and claim a dollar-for-dollar tax credit against their state income-tax liability.

"There are regimes that give you a credit that exceeds 15 percent; many states fall in that category," said Daniel Rosen, a partner in the North America tax practice group at Baker & McKenzie.

"While this approach may protect certain state regimes that predate the tax reform, it doesn't protect all of them," he said.

**More from Personal Finance**
Upcoming IRS rules could chill these tax credit programs

Blue states file suit against federal government over SALT caps

High-tax states plan workarounds to federal SALT deduction

# Seek immediate advice and counsel from your accountants on what to do.

Thanks,

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