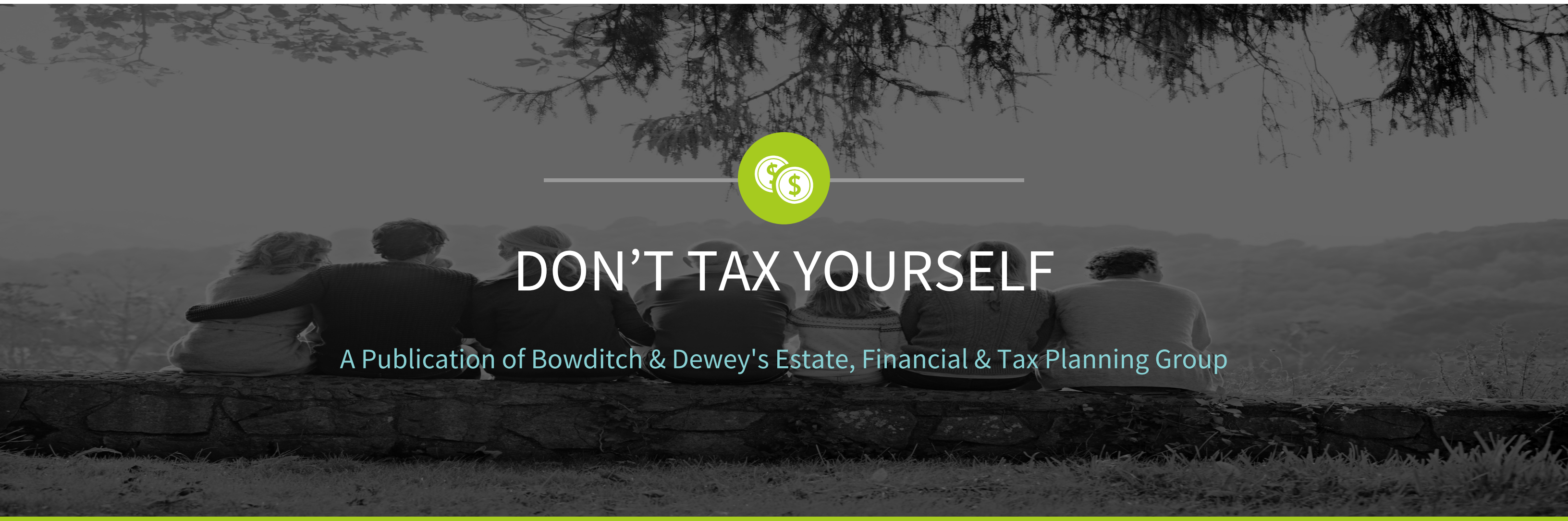

Blue States Sue Over Federal Tax Law

BY SCOTT C. CASHMAN • JULY 18, 2019

On July 17, 2019, three states filed a lawsuit (subscription required) against the Trump administration over the Treasury Department's interpretation of changes to the tax code that were part of the Tax Cuts and Jobs Act (TCJA).

TCJA placed limits on the deduction for state and local income tax (SALT), limiting these deductions to a maximum of $10,000. SALT deductions include state income and property taxes.

Though most taxpayers across income categories received an income tax cut under TCJA because of the lower overall tax rates, some higher-income residents of states such as New York and New Jersey that benefited from high SALT deductions were expected to see a tax increase.

Elected officials in these states cried foul. New York Governor Andrew Cuomo went so far as blaming the federal tax law changes for an anticipated $2.3 billion-dollar budget shortfall as the wealthy fled New York.

In response, some states, such as the three plaintiffs, proposed a workaround that would allow the establishment of charitable entities controlled by local governments that would circumvent the SALT limit, since charitable contributions do not have the same limitations.

Essentially, a taxpayer in one of these states would make a contribution to the charitable entity and receive a tax credit on their state income or property tax. A summary of the various schemes can be found here.

However, in August of last year, the IRS issued proposed regulations that would eliminate the benefits promised by these SALT workarounds, and in June 2019, these regulations were finalized.

Now, New York, Connecticut and New Jersey have sued to have these rules overturned.