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# SCHOLARSHIPS FOR EDUCATION CHOICE

at SAGAMORE INSTITUTE

## IRS REGULATIONS FINALIZED

*NOTE: The information below is only applicable to donors who itemize rather than taking the standard deduction on their federal taxes. All donors (those who itemize and those who do not) receive the 50% state tax credit on their gift. Those who do not itemize do not receive an additional federal benefit on their donation.*

The IRS published the final regulations today that we have been anticipating since last August (linked here: <https://www.federalregister.gov/documents/2019/06/13/2019-12418/contributions-in-exchange-for-state-or-local-tax-credits>). As we suspected, donors who itemize on their federal taxes and make a donation to the SGO program after 8/27/2018 will only claim 50% of that donation as a charitable deduction on their federal taxes.

However, the regulations included some good news — the IRS intends to publish new regulations (linked here: <https://www.irs.gov/pub/irs-drop/n-19-12.pdf>) that would allow donors who itemize to use the other 50% of their donation as a deduction on the State and Local Taxes line. The new regulation has the same effective date and the notice says that taxpayers can act as if this is finalized even before the new proposed regulation is issued. This “safe harbor” will benefit those donors who itemize and have less than \$10,000 to deduct in state and local tax (SALT) payments. In essence, it allows them to treat the amount of their tax credit as a state tax payment in the year that they use the credit and it corrects an inequity that was in the original language.

**What is the bottom line for our donors?** For those taxpayers who itemize, the NET federal tax benefit for giving to the SGO program is EXACTLY THE SAME as it was from when the program started until the new tax law was passed at the end of 2017. They would claim 50% of the gift as a charitable deduction and the other 50% of the gift as a state and local tax deduction. We are putting together some mock tax returns that illustrate this better, but we are hopeful that this provides the clarification that our schools and donors have been looking for!

We will use the following line when explaining the benefits to donors: Your gift will result in a 50% state tax credit and could have some federal benefit as well. Please consult your tax professional. If you itemize, you should claim 50% of the gift as a charitable deduction and the other 50% as a state and local tax deduction.