State Credit Programs Clarification for Businesses

Cross References

- IR-2018-178, September 5, 2018

On August 27, 2018, the IRS issued proposed regulations to provide rules governing a charitable contribution deduction when a taxpayer receives a corresponding state or local tax credit. The rules are designed to prevent taxpayers from getting around the state tax deduction limitation that was enacted by the Tax Cuts and Jobs Act (TCJA). The IRS has since issued a clarification on its website concerning businesses.

Business taxpayers who make business-related payments to charities or government entities for which the taxpayers receive state or local tax credits can generally deduct the payments as business expenses.

Responding to taxpayer inquiries, the IRS clarified that this general deductibility rule is unaffected by the recent notice of proposed rulemaking concerning the availability of a charitable contribution deduction for contributions pursuant to such programs. The business expense deduction is available to any business taxpayer, regardless of whether it is doing business as a sole proprietor, partnership or corporation, as long as the payment qualifies as an ordinary and necessary business expense. Therefore, businesses generally can still deduct business-related payments in full as a business expense on their federal income tax return.