



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 9, 2018

The Honorable John J. Ruocco
Mayor
Borough of Hillsdale
380 Hillsdale Avenue
Hillsdale, NJ 07642

Dear Mayor Ruocco:

I write in response to your letter to Secretary Mnuchin and Acting Commissioner Kautter requesting clarity on New Jersey's tax credit program and how the Internal Revenue Service will treat contributions to funds created under this program.

On August 23, 2018, the Treasury Department and the IRS issued proposed regulations that limit the federal charitable contribution deduction for these types of contributions. It is important to make clear that the proposed regulations will apply to all contributions for which a donor receives or expects to receive state or local tax credits regardless of whether the tax credit program was created after or existed before tax reform was enacted.

Under the proposed regulations, taxpayers who make payments or transfer property to an entity eligible to receive tax deductible contributions will need to reduce their federal charitable contribution deduction by the amount of any state or local tax credit that they receive or expect to receive. For instance, if a state grants a 70 percent credit and the taxpayer contributes \$1,000, the allowable charitable contribution deduction may not exceed \$300. The proposed regulations provide an exception for dollar-for-dollar state and local tax deductions and tax credits of no more than 15 percent of the payment amount or of the fair market value of the property transferred.

Treasury and IRS will continue to implement tax reform through timely, impartial guidance. If you have further questions, please contact the Office of Legislative Affairs.

Sincerely,

Brad Bailey
Acting Assistant Secretary
Office of Legislative Affairs