



April 2019

IRS Revenue Ruling 2019-11 Clarifies Tax Treatment of State and Local Tax Refunds with New SALT Limit

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On Friday, March 29, the Internal Revenue Service (IRS) issued [Revenue Ruling 2019-11](#) (the Ruling), providing guidance on the treatment of state and local tax refunds received when a tax deduction was claimed for those taxes in a prior year. This guidance is relevant with respect to the itemized deduction cap on state and local tax taxes. The ruling provides four examples illustrating when a SALT refund should be included in federal taxable income. The IRS also noted that the Ruling does not impact state or local tax refunds received in 2018.

When enacted in December 2017, the Tax Cuts and Jobs Act (TCJA) placed a limit on itemized deduction for state and local taxes of \$5,000 for a married person filing separately and \$10,000 for any other tax filers, with the limit applying to tax years beginning after December 31, 2017, and before January 1, 2026. However, the limit does not apply to property taxes paid in engaging in an activity meant for profit, e.g. real estate taxes on rental properties. The Ruling reiterates that a taxpayer who chooses a standard deduction for the year in which SALT tax was paid, any subsequent refund of those state and local taxes would not be subject to tax. However, starting in 2018 if a taxpayer claimed itemized deductions on Schedule A, Itemized Deductions, the refund in the subsequent year may - or may not - be taxed depending on how much tax benefit the taxpayer received from the deduction. The same

is true of prior years, but the determination of how much of the refund is taxable is now more complicated because of the introduction of the limit on the SALT itemized deduction. If taxpayers itemized deductions and paid state and local taxes in excess of the SALT limit, they may not need to include any or all of the state or local tax refund in taxable income in the following year.

All four taxpayer examples may be found in [the Ruling](#), and worksheets for calculating how much refund must be included in taxable income are in the 2018 [instructions](#) for Form 1040, as well as [Publication 525](#), Taxable and Nontaxable Income.

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