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Rev. Rul. 2019-11: Tax treatment of state and local tax refunds

The IRS today released an advance version of Rev. Rul. 2019-11, which provides guidance to taxpayers regarding the inclusion in income of recovered state and local taxes in the current year when the taxpayer deducted state and local taxes paid in a prior year, subject to the section 164(b)(6) limitation.

Today's [Rev. Rul. 2019-11](#) [PDF 37 KB] provides four examples illustrating how the long-standing tax benefit rule of section 111(a) interacts with the new state and local tax (SALT) limit to determine the portion of any state or local tax refund that must be included on the taxpayer's federal income tax return.

In general, the ruling provides that a taxpayer who received a tax benefit from deducting state or local taxes in a prior tax year must include in gross income the lesser of the difference between the taxpayer's total itemized deductions taken in the prior year and (a) the amount of itemized deductions the taxpayer would have taken in the prior year had the taxpayer not overpaid the state tax or (2) the standard deduction amount for the prior year (if the taxpayer was not precluded from taking the standard deduction in the prior year).

In one example, a single taxpayer itemizes and claims itemized deductions totaling \$15,000 on the taxpayer's 2018 federal income tax return. The taxpayer's state and local taxes listed on the return was the maximum amount deductible, or \$10,000. In 2019, the taxpayer receives a \$750 refund of state income taxes paid in 2018. Because of the cap, the taxpayer's 2018 SALT deduction would still have been \$10,000, even if it had not overpaid state taxes. The taxpayer did not receive a tax benefit on the taxpayer's 2018 federal income tax return from the taxpayer's overpayment of state income tax in 2018. Thus, the taxpayer is not required to include the taxpayer's 2019 state income tax refund on the taxpayer's 2019 return.

Taxpayers affected by the SALT limit—those taxpayers who itemize deductions and who paid state and local taxes in excess of the SALT limit—may not be required to include the entire state or local tax refund in income in the following year.

Today's announcement does not affect state tax refunds received in 2018 for tax returns currently being filed.

Read a related IRS release: [IR-2019-59](#)

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