**Blue State ‘Charity’**

***Rubbing SALT into the wounds of school-choice scholarships.***

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**By The Editorial Board**

Any day now the IRS will release new rules that address efforts by states including Connecticut, Oregon, New York and New Jersey to evade last year’s tax reform by masking tax payments as charitable contributions. The danger is that nonprofit scholarship organizations that are funded in part by tax credits could end up as collateral damage.

The issue arises because certain states—mostly left-leaning—have been looking for gimmicks to claw back the state and local deductions that were capped at $10,000 in the new tax reform. State politicians understand that because taxpayers can no longer fully deduct their high state taxes on federal forms, they are going to pay a higher price for their states’ big-spending ways.

Governors such as New York’s Andrew Cuomo have concocted a scheme to get around this. Essentially they’ve set up fake charities, which would collect in charitable contributions money that taxpayers formerly deducted from their federal taxes—which the states would then use to pay for state programs. Because the tax reform didn’t cap charitable deductions, taxpayers would effectively be taking a charitable deduction as a substitute for their formerly unlimited state and local tax deductions.

The IRS is rightly skeptical and in May issued Notice 2018-54 indicating it would adopt new regulations for such proposals. The danger now is that these new rules will not distinguish between “charities” that are really government fronts to collect taxes and Scholarship Granting Organizations that are not government entities, that do not funnel money back to the state, and that were set up by the states to expand opportunities for students.

Today 18 states have such scholarship programs, which generally give donors tax credits for contributions. More than 270,000 children in grades K-12 benefit, many from the neediest and most disadvantaged families. Surely these students and their futures should not be sacrificed because of a Rube Goldberg attempt by some states to re-categorize state and local tax payments as charitable contributions.

President Trump praised state tax deductions for scholarships in his first address to Congress, and he has to know he will get blowback from supporters if he lets IRS beancounters use rules meant to address an attempted end run around tax reform to hurt kids benefiting from scholarships. Several education groups have written White House budget chief Mick Mulvaney about this threat, and politicians such as Pennsylvania’s Pat Toomey have expressed concerns. So has Education Secretary Betsy DeVos.

Friday was the final day for the White House budget office to review the new rules before they’re made public. President Trump ought to insist the IRS sticks to its narrow fix and doesn’t let Democratic bad faith on taxes become a weapon to hurt tens of thousands of innocent American children.

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