

FEDERAL TAX WEEKLY

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TIGTA Identifies Significant Backlog of Adjustment Source Documentation Inventory

The Treasury Inspector General For Tax Administration recently highlighted “significant” concerns with the Internal Revenue Service’s inventory of adjustment source documents and the agency’s ability to eliminate that backlog.

In a June 3, 2024, report, TIGTA noted that its “review of IRS adjustment source document inventory reports identified significant inaccuracies in the reporting of these inventories.”

One example given was for the week ending October 27, 2023. The IRS reported a closure of more than 600,000 adjustment source documents at its Ogden Tax Processing Center in Ogden, Utah. However, the Treasury watchdog found this to be an inaccurate number.

“After TIGTA brought this to their attention, IRS management confirmed that the report was inaccurate, noting that the true number of closures was around 96,000,” the report stated.

“The IRS faces challenges in its ability to eliminate the backlog of adjustment source documents to be associated with a corresponding Form 5147,” the report highlights. “As of November 2023, the IRS reports having over 2.6 million source documents that need to be associated with the corresponding Form 5147.”

The Treasury watchdog said backlog represents an increase of 241 percent compared to the inventory in May 2020.

“Due to the IRS’s inability to effectively and efficiently associate adjustment source documents with Forms 5147, documentation supporting taxpayers’ accounts cannot be timely located in the event they are requested by an IRS functional area or other government official,” TIGTA reported. “This also results in delays in the functional area’s ability to timely work cases as they await duplicate information from the taxpayer.”

TIGTA also found that the agency does not currently have a comprehensive strategy that covers the actions it needs to take, the resources required, and how much time it will take to eliminate the backlog.

IRS Waives Certain Corporate AMT Estimated Tax Underpayment Penalties

Notice 2024-47

The IRS has provided a limited waiver of the addition to tax under Code Sec. 6655 for underpayments of estimated income tax attributable to corporate alternative minimum tax (CAMT), as amended by the Inflation Reduction Act (P.L. 117-169).

The Inflation Reduction Act added a new corporate AMT under Code Sec. 55, beginning after December 31, 2022, based on a corporation's adjusted financial statement income. Code Sec. 6655 generally requires corporations to pay estimated income taxes quarterly, with an addition to tax for failure to make sufficient and timely payments. The quarterly estimated tax payments must add up to 100 percent of the income tax due.

Estimated Taxes

The IRS waived the addition to tax under Code Sec. 6655 that is attributable to a corporation's CAMT liability for the installment of estimated tax that is due on

or before August 15, 2024. Accordingly, a corporate taxpayer's required installment of estimated tax that is due on or before August 15, 2024, need not include amounts attributable to its CAMT liability under Code Sec. 55 to prevent the imposition of an addition to tax under Code Sec. 6655. However, if a corporation fails to pay its CAMT liability, other Code sections may apply. For instance, additions to tax under Code Sec. 6651 could be imposed.

Instructions to Form 2220

The instructions to Form 2220, Underpayment of Estimated Tax by Corporations, will be modified to clarify that no addition to tax will be imposed

under Code Sec. 6655 based on a corporation's failure to make estimated tax payments of its CAMT liability for any covered CAMT year. Taxpayers may exclude such amounts when calculating the amount of its required annual payment on Form 2220. Affected taxpayers must still file Form 2220 with their income tax return, even if they owe no estimated tax penalty.

Applicability Date

The waiver of the addition to tax imposed by Code Sec. 6655 applies to the installment of estimated tax that is due on or before August 15, 2024.

Victims of Arkansas Severe Storms Granted Tax Relief

Arkansas Disaster Relief Notice (AR-2024-01)

The president has declared a federal disaster area in Arkansas. The disaster is due to severe storms, straight-line winds, tornadoes, and flooding that occurred on May 24, 2024. The disaster area includes the counties of:

- Baxter,
- Benton,
- Boone,
- Carroll,
- Fulton,
- Greene,
- Madison,
- Marion,
- Nevada,
- Randolph, and
- Sharp.

Taxpayers who live or have a business in the disaster area may qualify for tax relief.

Arkansas Filing Deadlines Extended

The IRS has extended certain deadlines falling on or after May 24, 2024, and on or before November 1, 2024, to November 1, 2024. This extension includes filing for most returns, including:

- individual, corporate, estate, and trust income tax returns;
- partnership and S corporation income tax returns;
- estate, gift, and generation-skipping transfer tax returns;
- the Form 5500 series returns; and
- annual information returns of tax-exempt organizations, and employment and certain excise tax returns.

However, the extension does not include information returns in the Form W-2, 1094, 1095, 1097, 1098, or 1099

series or Forms 1042-S, 3921, 3922, or 8027.

Arkansas Payment Deadlines Extended

The relief includes extra time to make tax payments. This includes estimated tax payments due on or after June 17, 2024 and September 16, 2024 and before November 1, 2024. Taxpayers have until November 1, 2024 to perform other time-sensitive actions due on or after May 24, 2024 and before November 1, 2024.

The IRS excused late penalties for employment and excise tax deposits due on or after May 24, 2024 and before June 10, 2024; but the taxpayer must make the deposits by June 10, 2024.

REFERENCE KEY

USTC references are to **U.S. Tax Cases**
Dec references are to **Tax Court Reports**

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Casualty Losses

Affected taxpayers can claim disaster-related casualty losses on their federal income tax return. Taxpayers may get relief by claiming their losses on their 2023 or 2024 return. Individuals may deduct personal property losses not covered by insurance or other reimbursements.

Taxpayers claiming a disaster loss on their 2023 or 2024 return should write the assigned FEMA declaration number "4788-DR" at the top of the return. This will allow the IRS to speed refund processing.

The IRS will provide affected taxpayers with copies of prior year returns without charge. To get this expedited service, taxpayers should add the disaster designation at the top of Form 4506, Request for a Copy of Tax Return, or Form 4506-T, Request for Transcript of Tax Return; and submit it to the IRS.

IRS Announces Educational Seminars for 2024 Nationwide Tax Forum

The IRS has released the agenda for its 2024 Nationwide Tax Forum, featuring 45 educational seminars covering diverse topics to aid tax professionals in better serving their clients. The forum's sessions range from tax law updates to cybersecurity for tax professionals.

This year's key sessions address tax law updates, client examination management, digital assets, Secure Act 2.0, Employee Retention Credit, and clean energy credits. IRS leadership will highlight ongoing improvements in service, enforcement, and compliance. Cybersecurity will be a significant focus, with two panels on real-life threats and protection strategies and an expert-led session by the Pell Center. Special events include practice management sessions and discussions on beneficial ownership information reporting. The forum will also tackle scams and fraudulent schemes in three dedicated seminars. Sessions will be available in both English and Spanish, providing broader accessibility.

Attendees can earn up to 19 continuing education credits by participating in one of the forums scheduled in Chicago, Orlando, Baltimore, Dallas, and San Diego. For further details and registration, visit www.irstaxforum.com.

IR-2024-163

Victims of Kentucky Severe Storms Granted Tax Relief

Kentucky Disaster Relief Notice (KY-2024-02)

The president has declared a federal disaster area in Kentucky. The disaster is due to severe storms, straight-line winds, tornadoes, landslides, and mudslides that began on April 2, 2024. The disaster area includes the counties of:

- Boyd,
- Carter,
- Fayette,
- Greenup,
- Henry,
- Jefferson,
- Jessamine,
- Mason,
- Oldham,
- Union, and
- Whitley.

Taxpayers who live or have a business in the disaster area may qualify for tax relief.

Kentucky Filing Deadlines Extended

The IRS extended certain deadlines falling on or after April 2, 2024, and before November

1, 2024, to November 1, 2024. This extension includes filing for most returns, including:

- individual, corporate, estate, and trust income tax returns;
- partnership and S corporation income tax returns;
- estate, gift, and generation-skipping transfer tax returns;
- the Form 5500 series returns;
- annual information returns of tax-exempt organizations, and employment, and certain excise tax returns.

However, the extension does not include information returns in the Form W-2, 1094, 1095, 1097, 1098, or 1099 series or Forms 1042-S, 3921, 3922, or 8027.

Kentucky Payment Deadlines Extended

The relief includes extra time to make tax payments. This includes estimated tax payments due on or after April 15, 2024, June 17, 2024, and September 16, 2024, and before November 1, 2024. Taxpayers have until November 1, 2024 to perform other time-sensitive actions due on or after April 2, 2024 and before November 1, 2024.

The IRS excused late penalties for employment and excise tax deposits due on or after April 2, 2024, and before April 17, 2024; but the taxpayer must make the deposits by April 17, 2024.

Casualty Losses

Affected taxpayers can claim disaster-related casualty losses on their federal income tax return. Taxpayers may obtain relief by claiming their losses on their 2023 or 2024 return. Individuals may deduct personal property losses not covered by insurance or other reimbursements.

Taxpayers claiming a disaster loss on their 2023 or 2024 return should write the assigned FEMA declaration number "4782-DR" at the top of the return. This will allow the IRS to speed refund processing.

The IRS will provide affected taxpayers with copies of prior year returns without charge. To get this expedited service, taxpayers should add the disaster designation at the top of Form 4506, Request for a Copy of Tax Return, or Form 4506-T, Request for Transcript of Tax Return; and submit it to the IRS.

Seniors Warned of Rising Impersonation Scams

IR-2024-164

The IRS has issued a warning about the increasing threat of impersonation scams targeting seniors. These scams involve fraudsters posing as government officials, including IRS agents, to steal sensitive personal information and money. By pretending to be representatives from agencies such as the IRS, Social Security Administration, or Medicare, these scammers contact their victims through phone calls, emails, or text messages, exploiting fear and urgency to deceive seniors. IRS Commissioner Danny Werfel emphasized that combating these scams requires a collective effort from multiple agencies and the broader tax community to effectively reach and protect seniors.

This warning comes in conjunction with World Elder Abuse Awareness Day (WEAAD) on June 15. WEAAD, observed since 2006, aims to raise awareness about the neglect and abuse faced by millions of older adults. The IRS's long-term efforts to protect against scams, including identity theft, have been ongoing since the establishment of the Security Summit partnership in 2015. Scammers use sophisticated techniques such as caller ID spoofing to create a false sense of legitimacy, often pressuring victims into making immediate payments through unconventional methods like gift cards or wire transfers. These fraudulent actors frequently fabricate urgent scenarios, claiming issues like outstanding debts

or promising fictitious prize winnings to coerce their victims.

To help prevent these scams, the IRS has advised individuals to verify the legitimacy of any communications they receive. If an unexpected call or message is received, especially if no prior mail notification has been given, it is likely a scam. The IRS does not initiate contact through email, text, or social media regarding tax bills or refunds. Suspicious contacts should be reported to the Treasury Inspector General for Tax Administration. By staying informed and cautious, seniors can better protect themselves from financial loss and identity theft. The IRS and other federal agencies continue to urge vigilance against these deceitful practices.

IRS Provides Filing and Payment Options to Taxpayers Who Missed April Filing Deadline

FS-2024-20; IR-2024-162

The IRS highlighted several options available to help taxpayers who missed the April deadline to file their 2023 federal income tax return. Further, the IRS reminded taxpayer that paying what they can as soon as possible limits penalty and interest charges, which can grow quickly under the tax laws. Taxpayers can limit late-payment penalties and interest charges by paying their tax electronically. Taxpayers can pay with IRS Direct Pay, a free service available only on IRS.gov. Several other electronic payment options are also available. Additionally, the IRS reminds taxpayers that an extension to file provides an additional six months

with a new filing deadline of October 15. However, penalties and interest apply to taxes owed after April 15 and interest is charged on tax and penalties until the balance is paid in full.

Taxpayers who have filed and paid on time and have not been assessed any penalties for the past three years often qualify to have the penalty abated. Taxpayers who do not qualify for this relief may still qualify for penalty relief if their failure to file or pay on time was due to reasonable cause and not willful neglect. However, interest will be charged on any tax not paid by the April 15 due date and any assessed penalties. Some taxpayers automatically qualify for extra time to file and

pay taxes due without penalties and interest, including taxpayers in certain disaster areas, U.S. citizens and resident aliens who live and work outside of the U.S. and Puerto Rico, including members of the military on duty outside the U.S. and Puerto Rico, and those serving in combat zones.

The IRS has several payment options available. Taxpayers that are unable to pay in full by the tax deadline should still file their tax return, pay what they can, and explore a variety of payment options available for the remaining balance. The IRS offers several options to help them meet their tax obligation, including applying for an online payment plan.

Updated IRS Careers Website Launched

IR-2024-165

The IRS has launched its updated IRS Careers website to enhance its recruitment efforts. This initiative is part of a larger hiring campaign fueled by funding from the Inflation

Reduction Act. The revamped site aims to connect job seekers with various opportunities at the IRS, offering a modernized platform to publicize job openings and attract new talent.

IRS Commissioner Danny Werfel highlighted the importance of this

update in transforming the agency and improving taxpayer services. The new site, irs.gov/jobs, offers comprehensive resources for job seekers, including information on upcoming hiring events, key job descriptions and details about

employee benefits. The website focuses on attracting qualified and diverse candidates, featuring special hiring paths for veterans, students and others. It showcases the IRS commitment to service, emphasizing a positive work culture and

work-life balance. Future enhancements will include career-mapping tools and a benefits calculator.

The IRS encourages interested individuals to follow its LinkedIn and recruitment handle on X (@RecruitmentIRS) for the

latest job openings. Additionally, the IRS plans to host exclusive recruiting events at the Nationwide Tax Forum, partnering with colleges and universities for special "IRS Tax Adventure" sessions to connect with students and recent graduates.

TAX BRIEFS

Disaster Relief

A May 28, 2024 notice granting relief to victims of severe storms, straight-line winds, tornadoes, and flooding that began on April 26, 2024, in parts of Texas was updated by the IRS on June 7, 2024, to include Austin, Bosque, Brown, Caldwell, Clay, Coleman, Concho, Coryell, Dallas, Falls, Freestone, Grimes, Hamilton, Hockley, Houston, Kaufman, Lampasas, Lee, Leon, Limestone, Madison, Mills, Newton, San Saba, Smith, Van Zandt, and Washington counties.

Texas Disaster Relief Notice (TX-2024-13)

A May 28, 2024 notice granting relief to victims of severe storms, straight-line winds, tornadoes, and flooding that began on April 26, 2024, in parts of Texas was updated by the IRS on June 12, 2024, to include Ellis, Navarro, and Terrell counties.

Texas Disaster Relief Notice (TX-2024-13)

A May 6, 2024 notice granting relief to victims of severe storms, straight-line winds, tornadoes, and flooding that began on April 25, 2024, in parts of Oklahoma

was updated by the IRS on June 12, 2024, to include Seminole and Wagoner counties.

Oklahoma Disaster Relief Notice (OK-2024-01)

Long Term Capital Gains

The IRS has issued a correction to final regulations that recharacterize certain long term capital gains of a partner that holds one or more applicable partnership interests as short-term capital gains. This correction is effective on June 14, 2024.

T.D. 9945 Correcting amendment

The tax-exempt status of two organizations was either denied or revoked under Code Sec. 501. The first organization failed the operational test requirements and did not qualify for exemption under Code Sec. 501(c)(3) because its recreational activities advanced a substantial non-exempt purpose. The exempt status of the second organization was revoked because it failed to provide adequate information substantiating its continued qualification for

exempt status within the meaning of Code Sec. 501(c)(3).

IRS Letter Ruling 202424021; IRS Letter Ruling 202424022

Real Estate Investment Trust

The hypothecation loan originated by a real estate investment trust's (taxpayer) subsidiary qualified as an interest in mortgages on real property. A third-party lender (borrower) originated and made the initial advance on a loan (the construction loan) to another party (construction borrower) secured by mortgages on certain real property. Concurrently, and in order to finance borrower's making of the construction loan, the subsidiary originated and made the initial advance on a hypothecation loan. The taxpayer represented that on the origination date, the amount of the construction loan exceeded the amount of the hypothecation loan, and the value of the development property securing the construction loan was greater than the amount of the hypothecation loan.

IRS Letter Ruling 202424011