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IRS Expands Direct File Functionality

IR-2024-258

The Internal Revenue Service will be expanding the scenarios in which taxpayers will be able to use the Direct File service in the coming tax filing season.

Direct File, which began in the 2024 tax filing season as pilot program but has since been made permanent, allows taxpayers to prepare and file their returns using the IRS website. It started out in 12 states and was only available to taxpayers with relatively simple tax returns that included Form W-2 income, unemployment compensation, Social Security income and a limited number of credits and deductions.

One the income side, the agency announced that it will allow taxpayers that receive a Form 1099 for interest income greater than $1,500, retirement income, and Alaska residents reporting the Alaska Permanent Fund dividend to use Direct File in the 2025 tax season.

On the credit side, IRS has expanded Direct File to include taxpayers that claim the Child and Dependent Care Credit, Premium Tax Credit, Credit for the Elderly and Disabled, and Retirement Savings Contribution Credit for the coming year. This is in addition to the Earned Income Tax Credit, Child Tax Credit, and Credit for Other Dependents that could be claimed in the Direct File program in 2024.

The IRS also has added deductions for Health Savings Accounts this year in addition to the standard deduction and deductions for student loan interest and educator expenses that were introduced during the pilot year of Direct File.

"Direct File is an important component of a stronger more comprehensive tax system that gives taxpayers electronic filing options that best suit their needs,"" IRS Commissioner Daniel Werfel said in a statement. "It is a critical tool in the IRS's effort to meet taxpayers where they are, give them options with us in ways that work for them, and help them meet their tax obligations as easily and quickly as possible."

The number of states that are eligible to use Direct File has grown from 12 in the pilot phase to 24 as of press time, with an estimate that more than 30 million taxpayers across those states will be eligible to use Direct File if they choose to. Participation is voluntary and in the past Werfel has stressed that it will remain so and be just another tax preparation and filing option and not a mandatory replacement for other options.

Taxpayers will be able to start filing returns via Direct File when the tax filing season opens in 2025.

Expansion of tax situations that would be open to Direct File are planned in future years. The agency did not detail what is up and coming, but expects a controlled roll-out of scenarios that will be eligible for participation in Direct File.

"We will focus – first and foremost – on continuing to get it right," Werfel said. "Accuracy and comprehensive tax credit uptake will be paramount concerns to ensure taxpayers file a correct return and get the refund to which they're entitled."

Guidance Issued on Long-Term, Part-Time Employees in 403(b) Plans

Notice 2024-73; IR-2024-257

The IRS provided guidance addressing long-term, part-time employee eligibility rules under Code Sec. 403(b)(12)(D), which apply to certain 403(b) plans beginning in 2025. The IRS also announced a delayed applicability date for related final regulations under Code Sec. 401(k).

Draft Form 7217 Released for Public Comment

The IRS requested public comments on draft Form 7217, Partner's Report of Property Distributed by a Partnership, and Instructions for Draft Form 7217. The IRS on August 28, 2024, posted revised draft Form 7217. On July 2, 2024, the IRS posted an early release draft of Form 7217, Distributions from a Partnership of Property with Partner Basis Adjustments, on IRS.gov. The purpose of Form 7217 is to report all distribution of property that a partner receives from a partnership. A partner receiving a distribution of property from a partnership in a nonliquidating or liquidating distribution will use the form to report the basis of the distributed property.

The IRS also posted draft instructions on September 3, 2024. The instructions state that any partner receiving a property distribution from a partnership must file Form 7217, regardless of whether there is a basis adjustment in the hands of the partner as a result of the distribution. Form 7217 is not filed for distributions that consist of only money or marketable securities treated as money.

IR-2024-249

Application of Code Sec. 403(b)(12)

The IRS provided guidance in the form of questions and answers on the requirement that 403(b) plans allow certain long-term, part-time employee to participate. The IRS clarified that the long-term, part-time employee eligibility rules only apply to 403(b) plans that are subject to title I of ERISA. Thus, a governmental plan under ERISA §3(32) is not subject to the long-term, part-time employee eligibility rules because it is not subject to title I pursuant to ERISA §4(b). The guidance also provides that 403(b) plans can continue to exclude student employees regardless of whether the individual qualifies under long-term, part-time employee eligibility rules.

Future Guidance

The guidance for 403(b) plans applies for plan years beginning after December 31, 2024. The IRS anticipates issuing proposed regulations applicable to 403(b) plans that are generally similar to regulations applicable to 401(k) plans.

Applicability Date for 401(k) Regulations

The IRS also addressed the applicability date of rules for 401(k) plans. Final regulations related to long-term, part-time employee eligibility rules will apply no earlier than to plan years beginning on or after January 1, 2026, the IRS said.

IRS Deploys Employees to Aid FEMA's Hurricane Helene Efforts

IR-2024-255

The IRS has taken special steps to provide more than 500 employees to help with the Federal Emergency Management Agency's (FEMA) disaster relief call lines and sending IRS Criminal Investigation (IRS-CI) agents into devastated areas to help with search and rescue efforts and other relief work as part of efforts to help victims of Hurricane Helene. The IRS assigned more than 500 customer service representatives from Dallas and Philadelphia to help FEMA phone operations.

Further, a team of 16 special agents from across the country were initially deployed last week by the IRS-CI to the Tampa area to help with search and rescue teams. During the weekend, the IRS team moved to North Carolina to assist with door-to-door search efforts. As part of this

REFERENCE KEY

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

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work, the IRS-CI agents are also assisting FEMA with security and protection for relief teams and their equipment.

Additionally, the IRS reminded taxpayers in Alabama, Georgia, North Carolina and South Carolina and parts of Florida, Tennessee and Virginia that they have until May 1, 2025, to file various federal individual and business tax returns and make tax payments. The IRS is offering relief to any area designated by FEMA. Besides all of Alabama, Georgia, North Carolina and South Carolina, this currently includes 41 counties in Florida, eight counties in Tennessee and six counties and one city in Virginia.

IRS Appeals Launches Corporate Group Mailbox Pilot

The IRS Independent Office of Appeals (Appeals) has launched a pilot program as part of the IRS' ongoing transformation efforts to expand online tools and improve user experiences. From September 30, 2024, through March 31, 2025, Appeals' Secure Messaging Program Office is piloting "Corporate Group Mailboxes" to enhance secure messaging for large business taxpayers with multiple representatives.

The new feature allows eligible business taxpayers with a team of representatives to request a group mailbox to communicate with the Appeals employee assigned to their case. The group mailboxes will help IRS Appeals deliver prompt taxpayer service with 24/7 online access to secure digital messages, streamlined communication with central access available for multiple authorized individuals, secure records sharing, and faster case resolution.

IR-2024-247

Dyed Diesel Fuel Penalty Relief Granted Due to Hurricane Helene

IR-2024-253; IR-2024-254

The IRS has announced that, in response to disruptions resulting from Hurricane Helene, it will not impose a penalty when dyed diesel fuel with a sulfur content that does not exceed 15 parts-per-million is sold for use or used on the highway throughout Alabama, Georgia, North Carolina, and South Carolina and in the following counties in Florida, Tennessee, and Virginia:

- **Florida:** Alachua, Bay, Bradford, Calhoun, Charlotte, Citrus, Collier, Columbia, Dixie, Escambia, Franklin, Gadsden, Gilchrist, Gulf, Hamilton, Hernando, Hillsborough, Holmes, Jackson, Jefferson, Lafayette, Lee, Leon, Levy, Liberty, Madison, Manatee, Marion, Monroe, Okaloosa, Pasco, Pinellas, Santa Rosa, Sarasota, Sumter, Suwannee, Taylor, Union, Wakulla, Walton, and Washington counties.
- **Tennessee:** Carter, Cocke, Greene, Hamblen, Hawkins, Johnson, Unicoi, and Washington counties.
- **Virginia:** City of Galax, Grayson, Smyth, Tazewell, Washington, Wise, and Wythe counties.

This penalty relief is available to any person that sells or uses dyed diesel fuel for highway use. In the case of the operator of the vehicle in which the dyed diesel fuel is used, the relief is available only if the operator or the person selling the fuel pays the tax of 24.4 cents per gallon that is normally applied to diesel fuel for highway use. Ordinarily, dyed diesel fuel is not taxed, because it is sold for uses exempt from excise tax, such as to farmers for farming purposes, for home heating use, and to local governments. The IRS will not impose penalties for failure to make semimonthly deposits of tax for dyed diesel fuel sold for use or used in diesel powered vehicles on the highway in these areas during the relief period. This relief is retroactive to September 26, 2024, and will remain in effect through October 15, 2024.

Taxpayers Impacted by Terrorist Attacks in Israel Granted Relief

Notice 2024-72; IR-2024-252

The IRS announced tax relief for certain individuals and businesses affected by terrorist attacks in the State of Israel throughout 2023 and 2024. The Treasury and IRS may provide additional relief in the future.

For taxpayers who were affected taxpayers for purposes of Notice 2023-71, I.R.B. 2023-44, 1191, the separate determination of terroristic action and grant of relief set forth in this notice will also postpone taxpayer acts and government acts already postponed by Notice 2023-71 if the taxpayer is eligible for relief under both notices.

Filing and Payment Deadlines Extended

Affected taxpayers will have until September 30, 2025, to file tax returns, make tax payments, and perform certain time-sensitive acts, that are due to be performed on or after September 30, 2024, and before September 30, 2025, including but not limited to:

- filing any return of income tax, estate tax, gift tax, generation-skipping transfer tax, excise tax (other than firearms tax), harbor maintenance tax, or employment tax;
- paying any income tax, estate tax, gift tax, generation-skipping transfer tax, excise tax (other than firearms tax), harbor maintenance tax, or employment tax, or any installment of those taxes;
- making contributions to a qualified retirement plan;
- filing a petition with the Tax Court;
- filing a claim for credit or refund of any tax; and
- bringing suit upon a claim for credit or refund of any tax.

The notice also provides the IRS with additional time to perform certain actions concerning affected taxpayers, such as assessing tax. The government is provided until September 30, 2025 to perform certain time-sensitive acts, that are due to be performed on or after September 30, 2024 and before September 30, 2025.

Taxpayers eligible for relief under Notice 2023-71 who are also eligible for relief under this notice have until September 30, 2025, to perform the time-sensitive acts that were postponed by Notice 2023-71. Taxpayers eligible for relief under Notice 2023-71 who are not also eligible for relief under this notice have until October 7, 2024, to perform the time-sensitive acts postponed by Notice 2023-71.

Government acts that were postponed by Notice 2023-71 until October 7, 2024, are also postponed by this notice until September 30, 2025, for taxpayers that are eligible for relief under Notice 2023-71 and this notice.

Illinois Victims of Severe Storms, Tornadoes, Straight-line Winds, and Flooding Granted Tax Relief

IR-2024-250

The IRS has extended tax relief to the victims of severe storms, tornadoes, straight-line winds, and flooding in parts of Illinois. Affected taxpayers have until February 3, 2025, to file various individual and business tax returns and make tax payments. The relief applies to affected taxpayers in Cook, Fulton, Henry, St. Clair, Washington, Will, and Winnebago counties.

Filing and Payment Deadlines Extended

The IRS has postponed various tax filing and payment deadlines that occurred starting on July 13, 2024. As a result, affected taxpayers will have until February 3, 2025, to file returns and pay any taxes that were originally due during this period. This includes individuals who had a valid extension to file their 2023 income tax return.

The February 3, 2025 deadline also applies to estimated income tax payments due on September 16, 2024, and January 15, 2025. In addition, the quarterly payroll and excise tax returns normally due on July, 31 and October 31, 2024, and January 31, 2025 are now due on February 3, 2025. Penalties on payroll and excise tax deposits due on or after July 13, 2024, and before July 29, 2024, will be abated, as long as the deposits were made by July 29, 2024.

The affected taxpayers do not need to contact the IRS to obtain this relief. The IRS will work with taxpayers who live outside the disaster area but whose records necessary to meet a deadline occurring during the postponement period are located in the affected area. Taxpayers qualifying for relief who live outside the disaster area should contact the IRS at 866-562-5227.

Casualty Losses

Individuals and businesses in a federally declared disaster area who suffered uninsured or unreimbursed disaster-related losses can choose to claim them on either the return for the year the loss occurred (2024), or the return for the prior year (2023). Taxpayers claiming a disaster loss on their tax return should write the appropriate FEMA declaration number –"4819-DR"– on any return claiming a loss. Finally, the IRS has requested taxpayers to see Publication 547 and visit disasterassistance.gov for information on disaster recovery.

Drought-Stricken Areas for Involuntary Sale of Livestock Tax Relief Identified

Notice 2024-70; IR-2024-248

The IRS has released its notice identifying drought-stricken areas where tax relief is available to taxpayers who sold or exchanged livestock because of drought. The relief extends the deadlines for taxpayers to replace the livestock and avoid reporting gain on the sales. These extensions apply until the drought-stricken area has a drought-free year.

When Sales of Livestock Are Involuntary Conversions

Sales of livestock due to drought are involuntary conversions of property. Taxpayers can postpone gain on involuntary conversions if they buy qualified replacement property during the replacement period. Qualified replacement property must be similar or related in service or use to the converted property.

Usually, the replacement period ends two years after the tax year in which the involuntary conversion occurs. However, a longer replacement period applies in several situations, such as when sales occur in a drought-stricken area.

Livestock Sold Because of Weather

Taxpayers have four years to replace livestock they sold or exchanged solely because of drought, flood, or other weather condition. Three conditions apply.

First, the livestock cannot be raised for slaughter, held for sporting purposes or be poultry.

Second, the taxpayer must have held the converted livestock for draft, dairy, or breeding purposes.

Third, the weather condition must make the area eligible for federal assistance.

Persistent Drought

The IRS extends the four-year replacement period when a taxpayer sells or exchanges livestock due to persistent drought. The extension continues until the taxpayer's region experiences a drought-free year.

The first drought-free year is the first 12-month period that:

- ends on August 31 in or after the last year of the four-year replacement period; and
- does not include any weekly period of drought.

Areas Suffering From Drought

The National Drought Mitigation Center produces weekly Drought Monitor maps that report drought-stricken areas. Taxpayers can view these maps at

https://droughtmonitor.unl.edu/Maps/MapArchive.aspx

The IRS has also provided a list of areas where the year ending on August 31, 2024, was not a drought-free year. The replacement period in these areas will continue until the area has a drought-free year.

Renewable Energy Production Credit Inflation Adjustment and Reference Prices Released

Notice 2024-69

The IRS has published inflation adjustment factor and reference prices for determining the credit for renewable electricity production for calendar year 2024 sales of kilowatt hours of electricity produced in the U.S. or a U.S. possession from qualified energy resources.

The inflation adjustment factor for qualified energy resources is 1.9499. The reference price for facilities producing electricity from wind is 3.15 cents per kilowatt hour. The reference prices for facilities producing electricity from closed-loop biomass, open-loop biomass, geothermal energy, solar energy, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy have not been determined for calendar year 2024.

Phaseout Limits

For electricity sold during calendar year 2024, the renewable electricity production credit is not subject to a phaseout under Code Sec. 45(b)(1) for electricity produced from wind. This is because the 2024 reference price for electricity produced from wind, 3.15 cents per kilowatt hour, does not exceed 8 cents multiplied by the inflation adjustment factor (1.9499). The phase-out of the credit also does not apply to electricity sold in 2024 and produced from closed-loop biomass, open-loop biomass, geothermal energy, solar energy, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy.

Credit Amount Adjustments

The credit for renewable electricity production for calendar year 2024 under Code Sec. 45(a) is 2.9 cents per kilowatt hour on the sale of electricity produced from the qualified energy resources of wind, closed-loop biomass, and geothermal energy. The credit is 1.5 cents per kilowatt hour on the sale of electricity produced in open-loop biomass facilities, landfill gas facilities, trash facilities, qualified hydropower facilities, and marine and hydrokinetic renewable energy facilities.

German Regulated Exchange Ruled Qualified Board or Exchange

Rev. Rul. 2024-23

The IRS has ruled that European Energy Exchange (EEE), a regulated exchange of Germany that offers electronic trading, is a qualified board or exchange within the meaning of Code Sec. 1256(g)(7)(C) as long as EEE holds a valid Order of Registration under the Commodity Futures Trading Commission (CFTC) foreign boards of trade (FBOT) registration system.

Under the CFTC FBOT registration system, the CFTC may issue an Order of Registration to a FBOT, allowing the FBOT to provide direct access to its electronic trading and order matching system from the U.S. On November 5, 2019, the CFTC granted an Order of Registration to EEE under the CFTC FBOT registration system.

Applicability Date

This revenue ruling is effective for the "contracts" entered into by EEE (EEE contracts) on or after November 1, 2024. The ruling defines "EEE contracts" as futures contracts and futures contract options that are traded on or subject to the rules of EEE, that are described in Code Sec. 1256(g)(1)(A), and that are not covered by the exception in Code Sec. 1256(b)(2).

The IRS granted consent to a taxpayer to change its method of accounting for EEE contracts entered into on or after November 1, 2024, to the Code Sec. 1256 mark-to-market method for the first tax year during which the taxpayer holds such contracts. The change is made on a cut-off basis and does not apply to EEE Contracts that were entered into before November 1, 2024.

IRS Recruiting Volunteers for VITA and TCE Programs

IR-2024-251

The Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs are recruiting volunteers for the upcoming filing season. The available positions were not limited to tax preparation and can include interpreters, greeters, and computer specialists.

VITA/TCE sites can be found nationwide and prepare millions of tax returns each year for low-to moderate-income taxpayers at no cost. These programs help underserved populations such as persons with disabilities, limited English speakers, and senior citizens.

Volunteers can participate at both in-person and virtual sites. Hours are often flexible with many sites operating at night and on weekends. They can often be found in local libraries, community centers, schools, and churches. Those interested can find their nearest VITA/TCE site at https://irs.treasury.gov/freetaxprep/.

Specifications for Preparing and Using Substitute Forms W-2c and W-3c Updated

Rev. Proc. 2024-36

The IRS has issued updated requirements for preparing and submitting substitute Forms W-2c, Corrected Wage and Tax Statement, and Forms W-3c, Transmittal of Corrected Wage and Tax Statements. Along with exhibits and instructions on how to obtain the forms, guidance is provided for filing the forms electronically with the Social Security Administration (SSA), for filing substitute paper copies of Red-Ink Forms W-2c (Copy A) and W-3c with the SSA, for filing Black-and-White Forms W-2c (Copy A) and W-3c with the SSA, and for furnishing substitute privately printed Forms W-2c (Copies B, C, and 2) to employees, as well as instructions for employers regarding retention of information and copies and guidance regarding approval of the forms from the Office of Management and Budget (OMB).

The following changes have been made since the last revision of the requirements:

- **OMB Number.** The June 2024 revisions of Forms W-2c and W-3c have a new OMB Number: 1545-0029. This number is the same as that for the 2025 and later Forms W-2 (including territorial Forms W-2), W-3, W-3SS, and various revisions of other employment tax forms.
- **Changes to IRS customer service information.** The Internal Revenue Service/Information Returns Branch (IRS/IRB) is now known as the Internal Revenue Service/Technical Service Operation (IRS/TSO). The phone numbers for the call site have not changed. However, the address for email inquiries has changed to ire@irs.gov.
- **IRS address change.** Inquiries about the red-ink Form W-2c (Copy A) and Form W-3c should be sent to the IRS at: Internal Revenue Service, Attn: Substitute Forms Program, C:DC:TS:CAR:MP:P:TP:TP, ATSC, 4800 Buford Highway, Mail Stop 061-N, Chamblee, GA 30341.
- **Identifying number 44444.** Section 1.6.05 is clarified to add that the identifying number "44444" and "For Official Use Only" text are not required to be included on employee copies of substitute Forms W-2c.
- **Exhibits.** All of the exhibits in this publication were updated for the June 2024 revisions of those forms.
- **Editorial changes.** Editorial changes were made throughout, including to update references. Redundancies were eliminated as much as possible.

The procedure will be reproduced as the next revision of IRS Publication 1223, General Rule sand Specifications for Substitute Forms W-2c and W-3c.

Rev. Proc. 2023-49, I.R.B. 2023-52 is superseded.

TAX BRIEFS

Frivolous Return

An individual's tax return was frivolous pursuant to Code Sec. 6702(a). The Tax Court has consistently characterized returns that report zero wages or income as both substantially incorrect and not containing information on which the substantial correctness of the self-assessment may be judged. Accordingly, no abuse of discretion was found.

Varela, TC, Dec. 62,510(M)

Real Estate Investment Trust

A corporation's lack of assets and income did not cause it to fail the gross income tests or asset test. Accordingly, its request to be treated as if it had not made an election to be a real estate investment trust (REIT) was denied. The corporation indirectly owned multi-family properties through entities treated as partnerships for federal income tax purposes.

IRS Letter Ruling 202440007

Tax-Exempt Organizations

An organization's tax-exempt status was denied or revoked under Code Sec. 501. The organization did not pass the exclusivity test under Code Sec. 501(c)(3).

IRS Letter Ruling 202440012

Whistleblower

An individual's bankruptcy filing did not automatically stay a whistleblower case filed under Code Sec. 7623.

Carter, TC, Dec. 62,503