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2025 Inflation Adjustments for Pension Plans, Retirement Accounts Released

Notice 2024-80; IR-2024-285

The 2025 cost-of-living adjustments (COLAs) that affect pension plan dollar limitations and other retirement-related provisions have been released by the IRS. Many of the pension plan limitations will change for 2025 because the increase in the cost-of-living index due to inflation met the statutory thresholds that trigger their adjustment. However, other limitations will remain unchanged.

The SECURE 2.0 Act (P.L. 117-328) made some retirement-related amounts adjustable for inflation beginning in 2024. These amounts, as adjusted for 2025, include:

- The catch up contribution amount for IRA owners who are 50 or older remains $1,000.
- The amount of qualified charitable distributions from IRAs that are not includible in gross income is increased from $105,000 to $108,000.
- The dollar limit on premiums paid for a qualifying longevity annuity contract (QLAC) is increased from $200,000 to $210,000.

Highlights of Changes for 2025

The contribution limit has increased from $23,000 to $23,500 for employees who take part in:

- 401(k) plans,
- 403(b) plans,
- most 457 plans, and
- the federal government's Thrift Savings Plan.

The annual limit on contributions to an IRA remains $7,000. The catch-up contribution limit for individuals aged 50 and over is subject to an annual cost-of-living adjustment beginning in 2024 but remains at $1,000.

The income ranges increased for determining eligibility to make deductible contributions to:

- IRAs,
- Roth IRAs, and
- to claim the Saver's Credit.

Phase-Out Ranges

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. The deduction phases out if the taxpayer or the taxpayer's spouse takes part in a retirement plan at work. The phase out depends on the taxpayer's filing status and income.

- For single taxpayers covered by a workplace retirement plan, the phase-out range is $79,000 to $89,000, up from between $77,000 and $87,000.
- For joint filers, when the spouse making the contribution takes part in a workplace retirement plan, the phase-out range is $126,000 to $146,000, up from between $123,000 and $143,000.
- For an IRA contributor who is not covered by a workplace retirement plan but their spouse is, the phase out is between $236,000 and $246,000, up from between $230,000 and $240,000.
- For a married individual covered by a workplace plan filing a separate return, the phase-out range remains $0 to $10,000.

The phase-out ranges for Roth IRA contributions are:

- $150,000 to $165,000, for singles and heads of household,
- $236,000 to $246,000, for joint filers, and
- $0 to $10,000 for married separate filers.

Finally, the income limit for the Saver' Credit is:

- $79,000 for joint filers,
- $59,250 for heads of household, and
- $39,500 for singles and married separate filers.

2024 Substitute Tax Form Requirements Issued

The IRS has issued guidelines and general requirements for the development, printing, and approval of 2024 substitute tax forms. The IRS accepts quality substitute tax forms that are consistent with the official forms and that do not have an adverse impact on processing. The IRS Substitute Forms Unit administers the acceptance and processing of these forms nationwide. While the unit deals primarily with paper documents, it also reviews for approval other processing and filing forms, such as electronic filing. Only substitute forms conforming to these requirements will be accepted. This revenue procedure will be reproduced as the next revision of IRS Publication 1167, General Rules and Specifications for Substitute Forms and Schedules.

Rev. Proc. 2023-28, I.R.B. 2023-43, 1092, is superseded.

Rev. Proc. 2024-33

Temporary Relief Extended for Certain Model 1 FFI TIN Reporting

Notice 2024-78

The IRS has extended the temporary relief procedures provided in Notice 2023-11 (I.R.B. 2023-3, 404) for foreign financial institutions (FFIs) required to report U.S. taxpayer identification numbers (TINs) for certain preexisting accounts (as defined in an applicable Model 1 intergovernmental agreement (IGA)) for which the Model 1 FFI has been unable to obtain U.S. TINs. If an FFI in an eligible Model 1 IGA jurisdiction complies with the relief procedures, then the U.S. Competent Authority will not determine there is significant noncompliance with the reporting Model 1 FFI's obligations under the IGA solely as a result of its failure to report U.S. TINs associated with its preexisting accounts.

The relief applies for reporting on calendar years 2025, 2026, and 2027.

FATCA

The Foreign Account Tax Compliance Act (FATCA) requires covered FFIs to report certain information to the IRS about financial accounts held by U.S. taxpayers and certain foreign entities with U.S. owners. The information reported includes U.S. TINs and individuals' dates of birth. To facilitate the exchange of this information, the Treasury Department and foreign governments developed two model IGAs.

The Model 1 IGA provides that an FFI will report certain information on U.S. reportable accounts to the Model 1 IGA jurisdiction tax authority. The tax authority will automatically exchange the information with the U.S. Competent Authority. A reporting FFI that complies with its reporting and registration obligations under the IGA is treated as complying with Code Sec. 1471, and is not subject to withholding under that provision unless the IRS treats the FFI as a nonparticipating financial institution.

The IRS implemented transitional relief to provide time for reporting Model 1 FFIs to obtain and report the required U.S. TINs for preexisting accounts, and published a series of TIN Codes that a reporting Model 1 FFI could use to populate the TIN field for certain missing required U.S. TINs. To extend additional

REFERENCE KEY

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

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transitional relief, Notice 2023-11 provided temporary relief for the 2022, 2023, and 2024 calendar years for reporting Model 1 FFIs in eligible Model 1 IGA jurisdictions that were unable to obtain and report required U.S. TINs for preexisting accounts.

The IRS continues to evaluate reported TIN Codes and other information provided by Model 1 FFIs to understand account characteristics that may make it difficult for an FFI to obtain and report the required U.S. TINs. However, the IRS believes additional information from TIN Code reporting in more calendar years is needed to develop future potential compliance options. The IRS has also concluded that certain additional data points are needed to ensure sufficient individual identifiers are reported where required U.S. TINs are missing.

TIN Reporting Relief Extended

A reporting Model 1 FFI is eligible for the relief for calendar years 2025, 2026, and 2027 only if, for each U.S. reportable account (including new accounts) with a missing required U.S. TIN, the reporting Model 1 FFI does the following:

- obtains and reports the date of birth of each account holder that is an individual and controlling person whose U.S. TIN is not reported;
- annually requests from each account holder any missing required U.S. TIN (as described in the guidance);
- annually searches electronically searchable data maintained by the reporting Model 1 FFI for any missing required U.S. TINs;
- reports an accurate TIN Code for each account that is missing a required U.S. TIN;
- if the FFI's electronically searchable account information contains a foreign taxpayer identification number (or functional equivalent) assigned to a taxpayer by its country of residence (FTIN), reports an FTIN for each specified U.S. person that is missing a required U.S. TIN; and
- using the AddressFix element (as described in the guidance), reports the city and country of residence for each specified U.S. person with a missing required U.S. TIN.

The relief is limited to reporting Model 1 FFIs that are in a Model 1 IGA jurisdiction that makes good faith efforts to increase the likelihood that U.S. citizens residing in that jurisdiction will report their U.S. TINs to the FFIs, and that takes other required steps.

BOI Reporting Relief Provided to Victims of Recent Natural Disasters

FIN-2024-NTC7; FIN-2024-NTC8; FIN-2024-NTC9; FIN-2024-NTC10; FIN-2024-NTC11

The Financial Crimes Enforcement Network (FinCEN) has announced that certain victims of Hurricane Milton, Hurricane Helene, Hurricane Debby, Hurricane Beryl, and Hurricane Francine will receive an additional six months to submit beneficial ownership information (BOI) reports, including updates and corrections to prior reports.

The relief extends the BOI filing deadlines for reporting companies that (1) have an original reporting deadline beginning one day before the date the specified disaster began and ending 90 days after that date, and (2) are located in an area that is designated both by the Federal Emergency Management Agency as qualifying for individual or public assistance and by the IRS as eligible for tax filing relief.

NTA Applauds IRS Changes to Foreign Gift, Inheritance Filing Penalties

National Taxpayer Advocate Erin Collins offered her support for recent changes the Internal Revenue Service made to inheritance filing and foreign gift filing penalties.

In an October 24, 2024, blog post, Collins noted that the IRS has "ended its practice of automatically assessing penalties at the time of filing for late-filed Forms 3250, Part IV, which deal with reporting foreign gifts and bequests."

She continued: "By the end of the year the IRS will begin reviewing any reasonable cause statements taxpayers attach to late-filed Forms 3520 and 3520-A for the trust portion of the form before assessing any Internal Revenue Code Sec. 6677 penalty."

Collins said this change will "reduce unwarranted assessments and relieve burden on taxpayers" by giving them an opportunity to explain the circumstances for a late file to be considered before the agency takes any punitive action.

She noted this has been a change the Taxpayer Advocate Service has recommended for years and the agency finally made the change. The change is an important one as Collins suggests it will encourage more taxpayers to file corrected returns voluntarily if they can fix a discovered error or mistake voluntarily without being penalized.

"Our tax system should reward taxpayers' efforts to do the right thing," she wrote. "We all benefit when taxpayers willingly come into the system by filing or correcting their returns."

Collins also noted that there are "numerous examples of taxpayers who received a once-in-a-lifetime tax-free gift or inheritance and were unaware of their reporting requirement. Upon learning of the filing requirement, these taxpayers did the right thing and filed a late information return only to be greeted with substantial penalties, which were automatically assessed by the IRS upon the late filing of the form 3520," which could have penalized taxpayers up to 25 percent of their gift or inheritance despite having no tax obligation related to the gift or inheritance.

She wrote that the abatement rate of these penalties was 67 percent between 2018 and 2021, with an abatement rate of 78 percent of the $179 million in penalties assessed.

"The significant abatement rate illustrates how often these penalties were erroneously assessed," she wrote. "The automatic assessment of the penalties causes undue hardship, burdens taxpayers, and creates unnecessary work for the IRS. Stopping this practice will benefit everyone."

New IRS Associate Chief Counsel Will Focus on Passthrough Entities

IR-2024-284

The IRS announced the selection of Jeffrey Erickson as the first Associate Chief Counsel for the newly created Passthroughs, Trusts, and Estates office, dedicated to partnerships, S corporations, trusts, and estates. The staffing from this office will be drawn from the current Passthroughs and Special Industries office.

Erickson is expected to join the IRS in January 2025. He served as a Principal in Ernst & Young's National Tax Passthroughs Transaction Group and as an Attorney Advisor and Assistant Branch Chief at the IRS. Erickson's role includes overseeing legal advisory services for partnerships and trusts to ensure consistent tax law interpretation, application, and enforcement.

Additionally, Holly Porter will be the Associate Chief Counsel for the Energy, Credits, and Excise Tax office which also will be drawn from the current Passthroughs and Special Industries office.

Charitable Contribution Deductions No Longer Allowed for Organizations

Announcement 2024-36

The IRS has announced that the following organizations no longer qualify under Code Sec. 170(c)(2) as organizations for which deductions for charitable contributions are allowed.

- Azalea Training Center Inc., of Alabama, effective revocation date: October 1, 2020;
- Carlton Woods Association Inc, of Texas, effective revocation date: January 1, 2021;
- Adjusting to Change Lives, of Texas, effective revocation date: January 1, 2021; and
- Rizpah House, of Califorina, effective revocation date: January 1, 2020.

However, contributions made to the organization before October 28, 2024, will generally be deductible, unless made by a person who (1) knew of the revocation, (2) was aware that the revocation was imminent or (3) was responsible, in whole or in part, for the activities or deficiencies that gave rise to the loss of qualification.

If the organization files suit, in a timely manner, for declaratory judgment under Code Sec. 7428, challenging the revocation of its status as an eligible donee of deductible charitable contributions, Code Sec. 170 contributions will continue to be deductible. Protection under Code Sec. 7428(c) would begin on October 10, 2024. The maximum amount of individual contributions protected would be $1,000, with a husband and wife treated as one taxpayer. This protection is not afforded to anyone who was responsible, in whole or in part, for the acts or omissions of the organization that resulted in revocation of qualification.

IRS Offers Online Safety Tips at Conclusion of National Cybersecurity Awareness Month

IR-2024-283

The IRS and its Security Summit partners reminded taxpayers to be wary of online threats like identity theft and fraud as October's National Cybersecurity Awareness Month drew to a close. The IRS informed taxpayers that by shopping online or browsing social media, people unfamiliar with online security could be putting themselves at risk.

Taxpayers should remain vigilant and teach children and teens how to recognize and avoid online scams to minimize their chances of falling prey or unwittingly exposing their families to identity theft and tax fraud. The IRS provided the following online safety tips to help protect against cybersecurity attacks:

- Do not reply, open attachments, or click links in unsolicited emails or social media regarding personal tax matter. Report phishing by forwarding the email to phishing@irs.gov with full headers, then delete it.
- Be cautious about sharing personal details online, including birthdates, addresses, and financial information.
- Encrypt sensitive files like tax records stored on computers. Use a password manager to store passwords.
- Enable Multi-Factor Authentication (MFA) for extra security on online accounts. Ensure that computer and phone software, including antivirus and firewall protections, are updated automatically.
- Always use a Virtual Private Network (VPN) when connecting to public Wi-Fi.

TAX BRIEFS

Annuities

Guarantee payments and conversion annuity payments made by a life insurance company were taxable as amounts received as an annuity under Code Sec. 72(b). Further, a taxable brokerage or similar investment account owned by the individual would not cause the annuity contract to have a cash value or cash surrender value for purposes of Code Sec. 72, and would not otherwise be part of the annuity contract for federal tax purposes. Finally, for purposes of Code Sec. 72(c)(1) and 72(e)(6), the "aggregate amount of premiums or other consideration paid" for the annuity contract would equal the sum of all contract charges plus any conversion premium paid to the taxpayer.

IRS Letter Ruling 202444003

Digital Assets

An individual taxpayer must include the fair market value of certain rewards in gross income if the account remained frozen as of December 31. The taxpayer held digital assets, including cryptocurrency, in a platform for investment purposes. These rewards, including those from staking, were periodically distributed to the taxpayer following any applicable lockup or waiting period. The rewards could be sold, exchanged, or transferred. Prior to the platform freezing customers' accounts and filing its bankruptcy petition, the taxpayer was in receipt of cryptocurrency that represented staking and other rewards when the cryptocurrency was credited to the account.

Chief Counsel Advice Memorandum 202444009

Expatriates

The IRS has released the list of individuals who chose to expatriate and lost their U.S. citizenship within the meaning of Code Sec. 6039G during the quarter than ended on September 30, 2024. Under the Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191), the State Department is required to provide the Treasury Secretary with information regarding the individuals' loss of nationality.

Quarterly Publication of Individuals Who Have Chosen to Expatriate, as Required by Section 6039G

Foreign Currency Options

Two taxpayers were prevented from using foreign currency option transactions for tax avoidance purposes. They were liable for an income tax deficiency. Congress permits the limitation of such deductions to profit-seeking transactions. It did not contemplate transactions of this sort in its enactment of Code Sec. 165.

Wright, TC, Dec. 62,519(M)

IRS

The IRS has released email advice prepared in less than two hours by attorneys in the IRS's Office of Chief Counsel. In Tax Analysts, CA-DC, 2007-2 USTC ¶50,553, the Court of Appeals for the D.C. Circuit ruled that the IRS could not rely on its so-called "two-hour" rule to avoid disclosure of email sent to IRS field personnel. The documents constitute Chief Counsel Advice, which the IRS is required to publicly disclose under Code Sec. 6110. The items listed below were released as a result.

Chief Counsel Advice Memorandum 202444004; Chief Counsel Advice Memorandum 202444005; Chief Counsel Advice Memorandum 202444006; Chief Counsel Advice Memorandum 202444007; Chief Counsel Advice Memorandum 202444008

Liens and Levies

Summary judgment was granted to the IRS, upholding an Independent Office of Appeals notice of intent to levy with respect to unpaid federal income tax liabilities.

Dick, Jr, TC, Dec. 62,520(M)

Partner's Excess Losses

A partnership under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), was required to decrease its yearend outside basis by the excess losses as determined by the IRS in the Notice of Final Partnership Administrative Adjustment (FPAA).

Surk, LLC, TC, Dec. 62,518(M)