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Basis Shifting TOI Regulations Targeted for Removal; Disclosure Penalties Waived

Notice 2025-23

The IRS announced that it will initiate rulemaking to remove Reg. §1.6011-18, which designates certain basis shifting transactions between related parties as transactions of interest (TOIs). The regulation, effective January 14, 2025, imposed reporting obligations under Code Secs. 6011, 6111, and 6112 on taxpayers and material advisors involved in specified partnership basis adjustments. The IRS stated that it received significant feedback raising concerns about the regulation's scope, complexity, and retroactive application to common business arrangements.

Pursuant to Executive Order 14219, which directs agencies to review and repeal unnecessarily burdensome regulations, the IRS and Treasury intend to issue a notice of proposed rulemaking to formally eliminate Reg. §1.6011-18. Until then, taxpayers and advisors may rely on Notice 2025-23 for relief. The forthcoming NPRM will propose that the removal be effective retroactively to January 14, 2025.

In connection with the anticipated repeal, the IRS is waiving penalties where compliance failures arose solely due to Reg. §1.6011-18. The waiver includes penalties under Code Sec. 6707A(a) for failure to file Form 8886, and under Code Secs. 6707(a) and 6708 for failures by material advisors to file Form 8918 or maintain investor lists under Code Sec. 6112. The IRS explained that enforcement would be inequitable given the imminent removal of the disclosure requirement. Finally, the IRS formally withdrew Notice 2024-54, which had initially identified Reg. §1.6011-18 as imposing TOI status on related-party basis shifting transactions.

IRS Whistleblower Office Unveils First Multi-Year Operating Plan To Strengthen Program Oversight

IR-2025-50

The IRS Whistleblower Office has issued its inaugural multi-year operating plan, marking a strategic effort to improve how whistleblower information is received, reviewed and rewarded. The plan outlines six core priorities aimed at making the program more responsive and efficient, including faster processing of claims, increased communication with claimants and fairer award determinations. It also emphasizes data security and workforce support, while incorporating feedback from whistleblowers, practitioners and oversight bodies.

Within these strategic areas, the plan details 38 initiatives targeting both immediate and long-term reforms. Some measures involve specific action steps, while others provide a flexible framework for adapting to evolving needs. The IRS stressed the importance of whistleblower contributions, which help identify tax law violations and close the tax gap. In fiscal year 2024, the agency paid $123.5 million in awards tied to $474.7 million in recoveries, making it the third-highest payout year since the office's launch in 2007. Whistleblowers who submit credible and relevant information about noncompliance may be eligible for an award ranging from 15 to 30 percent of amounts collected. Eligible individuals can file Form 211 to begin the process.

IRS Updates Average Residence Purchase Prices for Qualified Mortgage Bonds and Mortgage Credit Certificates

Rev. Proc. 2025-18

The IRS has updated:

- nationwide average home purchase prices, and
- average area purchase price safe harbors for residences located in statistical areas in each state, the District of Columbia, Puerto Rico, the Northern Mariana Islands, American Samoa, the Virgin Islands, and Guam.

Issuers of qualified mortgage bonds and mortgage credit certificates may rely on the updates beginning on April 16, 2025.

Comments Received

The Treasury Department and IRS reviewed all received comments. Both determined that no changes to the data or the methodology for calculating average area purchase prices would be made.

Effects on Other Documents

Rev. Proc. 2024-21, I.R.B. 2024-19, is obsoleted except with respect to commitments made before June 15, 2025.

IRS Obsoletes Nine Guidance Documents

Notice 2025-22

Treasury and the IRS have obsoleted nine Internal Revenue Bulletin guidance documents. The action is consistent with Executive Order 14219 (90 FR 10583), which directed agencies to eliminate "overbearing and burdensome" regulations and other guidance documents. The obsoleted documents are:

- Notice 2015-73
- Notice 2009-49
- Notice 2018-10
- Announcement 2013-23
- Announcement 2013-19
- Notice 2015-16
- Notice 2015-52
- Notice 2005-64
- Rev. Rul. 91-32

Treasury and the IRS anticipate revoking or obsoleting hundreds of additional guidance documents in the near future.

Petition for Redetermination of Worker Classification Untimely; Equitable Tolling Not Warranted

Belagio Fine Jewelry, Inc., 164 TC No. 7, Dec. 62,644

A corporation's petition under Code Sec. 7436 for redetermination of worker classification and associated employment tax liability was dismissed as untimely. Although the 90-day filing deadline under Code Sec. 7436(b)(2) is a non-jurisdictional claim-processing rule subject to equitable tolling, the record did not support tolling.

The IRS issued a Notice of Determination of Worker Classification to the taxpayer, reclassifying certain

REFERENCE KEY

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

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independent contractors as employees. The legal staff of the taxpayer's attorney mailed its petition to the Tax Court via a nondesignated private delivery service four days before expiration of the 90-day deadline to file for redetermination. The petition arrived at the court one day after the 90-day deadline expired. The IRS moved to dismiss for failure to state a claim upon which relief can be granted, arguing that the 90-day deadline was not subject to equitable tolling, and alternatively that equitable tolling was not warranted in this case.

Generally, nothing in the text of Code Sec. 7436 rebuts the presumption that equitable tolling applies. The wording is not unusually emphatic, and application of equitable tolling would not affect the substance of a taxpayer's claim, merely their ability to bring the claim. The statutory text is not so highly detailed or technical so that an implicit exception could not be read into the text.

However, equitable tolling did not apply in this case. To be entitled to equitable tolling, a taxpayer must establish that it pursued its rights diligently, and that extraordinary circumstances outside of its control prevented it from filing on time.

Here, the petition was mailed using a private courier service which was not a designated private delivery service under Code Sec. 7502(f) and Notice 2016-30, and thus the "timely mailed, timely filed rule" under Code Sec. 7502(a) did not apply. The taxpayer did not allege any facts indicating that it had diligently pursued its rights; there was no indication that the taxpayer followed up with its attorney to ensure the attorney had timely filed the petition. Further, the error by the attorney's legal staff in selecting a nondesignated private delivery service for mailing the petition was garden variety neglect that did not rise to a level of warranting equitable tolling.

Current Plan Liability Rates Set for April 2025

For pension plan years beginning in April 2025, the IRS has released:

- the 30-year Treasury bond weighted average interest rate,
- the unadjusted segment rates,
- the unadjusted segment rates, and
- the minimum present value segment rates.

Corporate Bond Rate

The three 24-month average corporate bond segment rates applicable for April 2025 without adjustment for the 25-year average segment rate limits are as follows:

- 4.97 for the first segment rate,
- 5.31 for the second, and
- 5.51 for the third.

April 2025 Adjustment Segment Rates

The April 2025 adjusted segment rates for plan years beginning in 2024 are:

- 4.97 for the first segment rate,
- 5.31 for the second segment, and
- 5.59 for the third segment.

The rates for plan years beginning in 2025 are:

- 4.97 for the first segment rate,
- 5.31 for the second segment, and
- 5.51 for the third segment.

30-Year Treasury Weighted Average

For plan years beginning in April 2025, the 30-year Treasury weighted average securities rate is 3.98, with a permissible range of 3.58 to 4.18 under Code Sec. 431(c)(6)(E)(ii)(I).

The rate of interest on 30-year Treasury securities for March 2025 is 4.60 percent.

The minimum present value segment rates under Code Sec. 417(e)(3)(D) for March 2025 are:

- 4.50 for the first segment rate,
- 5.33 for the second, and
- 5.86 for the third.

Notice 2025-21

IRS Postpones Tax Deadlines to November 3 for Tennessee Disaster Victims

IR-2025-47

The IRS announced tax relief for Individuals and businesses in Tennessee affected by April 2025 storms. The relief applies to all 95 counties in the state, designated disaster areas by Federal Emergency Management Agency (FEMA).

Eligible taxpayers now have until November 3, 2025, to file federal returns and make payments originally due between April 2 and November 3, 2025. This includes individual income tax returns, IRA and HSA contributions for the tax year at issue, estimated tax payments, payroll and excise tax returns, and calendar-year corporate, fiduciary and tax-exempt organization returns. Penalties on certain payroll and excise deposits due between April 2 and April 17 will be abated if deposits are made by April 17. Taxpayers outside the disaster area may also qualify for relief if their records are within the affected area or if they are assisting in relief efforts.

Additionally, uninsured disaster-related losses may be claimed on either the 2024 or 2025 tax return. Qualified disaster relief payments are excluded from gross income. Special retirement plan rules may also apply. For additional information, visit the IRS Disaster Assistance page or disasterassistance.gov.

Arkansas Victims of Severe Storms, Tornadoes and Flooding Granted Tax Relief

IR-2025-49; Arkansas Disaster Relief Notice (AR-2025-03)

The IRS has extended tax relief to the victims of severe storms, tornadoes, and flooding in all of Arkansas until November 3, 2025, to file various individual and business tax returns and make tax payments. The relief applies to affected taxpayers in all of Arkansas.

Filing and Payment Deadlines Extended

The IRS has postponed various tax filing and payment deadlines that occurred starting on April 2, 2025. As a result, the affected taxpayers will now have until November 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 2024 income tax return.

The November 3, 2025, deadline applies to estimated income tax payments due on April 15, June 16, and September 15, 2025. In addition, the quarterly payroll and excise tax returns normally due on April 30, July 31, and October 31, 2025, are also now due on November 3, 2025. Penalties on payroll and excise tax deposits due on or after April 2, 2025, and before April 17, 2025, will be abated, as long as the deposits are made by April 17, 2025.

The affected taxpayers do not need to contact the IRS to get 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 need to 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 (2025), or the return for the prior year (2024). Taxpayers claiming a disaster loss on their tax return should write the appropriate FEMA declaration number –“3627-EM”– 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.

IRS Encourages Individuals Who Missed Filing Deadline to Submit Return Promptly

IR-2025-51

The IRS encourages individuals who missed the April 15 filing deadline to file their tax returns as soon as possible. Filing promptly helps reduce penalties and interest, especially for those with outstanding tax balances. Taxpayers granted an extension receive extra time to file but not to pay.

Further, IRS recommends paying as much as possible, even if unable to pay the full amount. Individuals may qualify for penalty relief if they have filed and paid timely for the past three years and meet other conditions. Payment options include IRS Online Account, Direct Pay, debit or credit card, and digital wallet. Individuals may also apply online for an installment agreement.

Additionally, those due refunds face no late filing penalties, but failing to file may result in missing refundable credits, such as the Earned Income Tax Credit or Child Tax Credit. The IRS urged nonfilers, including low-income individuals, to claim potential refunds through available electronic filing options, which remain open until October 20. The IRS also encouraged individuals to consult qualified preparers listed in its Directory of Federal Tax Return Preparers with Credentials and Select Qualifications.

IRS Urges Taxpayers To Review Withholding Early To Avoid Surprises Next Filing Season

IR-2025-52

The IRS is encouraging individuals to review their tax withholding now to avoid unexpected bills or large refunds when filing their 2025 returns next year. Because income tax operates on a pay-as-you-go system, ensuring the correct amount is withheld early in the year can help taxpayers avoid last-minute adjustments. The IRS recommends using the Tax Withholding Estimator, a free online tool designed for employees, self-employed individuals and retirees to evaluate whether their current withholding aligns with their tax liability.

The Tax Withholding Estimator helps users determine if they need to file a new Form W-4 with their employer or change how much they set aside for estimated tax payments. Early adjustments can prevent underpayment penalties or allow individuals to receive more in each paycheck rather than waiting for a refund. Taxpayers should update their withholding especially after life changes such as marriage, divorce, job changes or the birth of a child. To use the tool accurately, taxpayers should collect income records, including spousal income if filing jointly, and their latest tax return. For more complex tax profiles, Publication 505 offers further guidance.

IRS Issues Updated Practice Units

The IRS Large Business and International (LB&I) has issued a number of updated Practice Units. Practice Units provide IRS staff with explanations of general tax concepts, as well as information on specific types of transactions. Practice Units are not official pronouncements of law or directives and cannot be used, relied upon or cited as such. Practice units can be found https://www.irs.gov/businesses/corporations/practice-units. The updated Practice Units include:

- FDAP Payments - Statistical Sampling and Projection Procedures;
- IRC 481(a) Adjustments for IRC 263A Accounting Method Changes;
- U.S. Persons Residing Abroad Claiming Additional Child Tax Credit;
- Sourcing of Multi-Year Compensation Arrangements Including Stock Options for FTC Limitation;
- Section 861 - Home Office and Stewardship Expenses; and
- Qualified Dividends and Capital Gains Rate Differential Adjustments.

TAX BRIEFS

Consolidated Returns

The IRS ruled that a member of a consolidated group must take into account deferred intercompany gain (DIG) upon the liquidation of a subsidiary under the matching rule in Reg. §1.1502-13(c), but the DIG may be redetermined and partially excluded from gross income under Reg. §1.1502-13(c)(6)(ii)(D). The DIG arose from a prior intercompany sale of stock in a foreign affiliate, which was later contributed to a domestic corporation and reorganized into a disregarded entity. The IRS concluded that the deemed liquidation of the domestic corporation triggered the DIG, but that the matching and redetermination rules applied to exclude the amount from gross income and prevent its treatment as tax-exempt income or earnings and profits under Reg. §1.1502-32.

IRS Letter Ruling 202516005

Civil Penalties

An individual was not entitled to file claims against two IRS officials for malicious prosecution. The IRS agents contended that the taxpayer failed to state a claim against them in their individual capacities under *Bivens v. Six Unknown Named Agents of Federal Bureau of Narcotics*, 403 U.S. 388, 397 (1971), and the district court agreed.

Ray, DC D.C., 2025-1 USTC ¶50,149

Hobby Losses

A married couple was not entitled to Schedule C loss deductions claimed for a horse breeding, boarding, and training activity. The Tax Court found that the couple's activities lacked a profit motive under Code Sec. 183. Operating through a sole proprietorship, the couple had reported consistent losses and did not generate a profit during any of the tax years at issue. The Court concluded that the taxpayers' operation resembled a recreational pursuit rather than a for-profit business.

Himmel, TC, Dec. 62,646(M)

Liens and Levies

The IRS settlement officer (SO) did not abuse her discretion in sustaining the collection actions against a married couple. Further, the SO did not abuse her discretion in declining to withdraw the IRS's notice of federal tax lien (NFTL). In their CDP hearing request, the taxpayers checked the box requesting "withdrawal." But they did not articulate any grounds to support lien withdrawal or submit any evidence that would justify it.

Gebman, TC, Dec. 62,647(M)

Method of Accounting

Ten transactions (the contracts) executed by a TFRA partnership were not options in substance because they lacked the essential economic and legal characteristics of genuine options. Further, the taxpayer was liable for accuracy-related penalties under Code Sec. 6662(a) and (b)(2).

Gwa, LLC, TC, Dec. 62,645(M)