



# FEDERAL TAX WEEKLY

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## SALT Deduction Changes Help Get Reconciliation Bill Across The House Finish Line

A change to the state and local tax deduction helped Republican leadership in the House of Representatives get its budget reconciliation bill the votes needed to pass in the lower chamber of Congress.

In an early morning vote on May 22, 2025, the reconciliation bill, dubbed the “One Big Beautiful Bill” (H.R. 1) passed along near party lines. Among the last-minute changes are the updated SALT provision. Current law allows for a deduction of up to \$10,000 of state and local taxes on the federal income tax obligation. The new SALT deduction provision would start in 2025.

The original version of the reconciliation bill pushed that deduction to \$30,000 for those filing with incomes up to \$400,000, but that was not enough to appease Republicans in highly taxed blue states. Leadership pushed the deduction up to \$40,000 for those making up to \$500,000. Republicans pushing for the change wanted the deduction to double on tax returns covering taxpayers who are married and filing jointly, but that change did not make it through.

The SALT cap and income limit would increase 1 percent per year through 2033.

For those making more than \$500,000, a SALT deduction of up to \$10,000 is still available, according to the provision in the just passed version of the reconciliation bill.

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## IRS Collects More Than \$5 Trillion In 2024

*IR-2025-63*

The Internal Revenue Service collected more than \$5.1 trillion in gross receipts in fiscal year 2024.

It is the first time the agency broke the \$5 trillion mark, according to the 2024 Data Book, an annual publication that reviews IRS activities for the given fiscal year. It was an increase over the \$4.7 trillion collected in the previous fiscal year.

Individual tax, employment taxes, and real estate and trust income taxes accounted for \$4.4 trillion of the fiscal 2024 gross collections, with the balance of \$565 billion coming from businesses. The agency issued \$120.1 billion in refunds, including \$117.6 billion in individual income tax refunds and \$428.4 billion in refunds to businesses.

The 2024 Data Book broke out statistics from the pilot year of the Direct File program, noting that 423,450 taxpayers logged into Direct File, with 140,803 using the program, which allows users to prepare and file their tax returns through the IRS website, to have their tax returns filed and accepted by the agency. Of the returns filed, 72 percent received

a refund, with approximately \$90 million in refunds issued to Direct File users. The IRS had gross collections of nearly \$35.3 million (24 percent of filers using Direct File). The rest had a return with a \$0 balance due.

Among the data highlighted in this year's publication were service level improvements.

"The past two filing seasons saw continued improvement in IRS levels of service—one the phone, in person, and online—thanks to the efforts of our workforce and our use of long-term resources provided by Congress," IRS Acting Commissioner Michael Faulkender wrote. "In FY 2024, our customer service representatives answered approximately 20 million live phone calls. At our Taxpayer Assistance Centers around the country, we had more than 2 million contacts, increasing the in-person help we provided to taxpayers nearly 26 percent compared to FY 2023."

On the compliance side, the IRS reported in the 2024 Data Book that for all returns filed for Tax Years 2014 through 2022, the agency "has examined 0.40

## IRS Urges Early Registration for 2025 Nationwide Tax Forum

The IRS has invited tax professionals to register for the 2025 Nationwide Tax Forum, the Service's largest outreach event, scheduled across five major cities beginning in July. The event will provide up to 18 continuing education credits, along with training on key tax law updates, ethics, cybersecurity and digital assets. The forum starts in Chicago from July 1–3, followed by sessions in New Orleans, Orlando, Baltimore and San Diego. Early bird registration, available until June 10, is priced at \$265 per person. After that, the standard rate rises to \$319, with on-site registration costing \$399. Members of key professional associations such as the ABA, AICPA and NAEA can obtain an additional \$10 discount by using a code from their organization. In addition to education credits, attendees will have access to the Expo Hall featuring industry exhibitors, as well as the IRS Zone where staff will offer updates on digital services. A dedicated Digital Account Services Room will provide on-site assistance for IRS Online Accounts and PTIN or CAF issues. The forum also includes a panel on tax scams, co-hosted by the IRS and CERCA, as well as Monday evening sessions on practice management and an Annual Filing Season Refresher course for AFSP participants.

IR-2025-62

percent of individual returns filed and 0.66 percent of corporation returns filed, as of the end of fiscal year 2024."

This includes examination of 7.9 percent of taxpayers filing individual returns

reporting total positive incomes of \$10 million or more. The IRS collected \$29.0 billion from the 505,514 audits that were closed in FY 2024.

## Tax Court Upholds 2009 Cost Sharing Regulations, Income Method

*Facebook, Inc. & Subsidiaries*, 164 TC No. 9, Dec. 62,663

The income method was the best method for valuing platform contribution transactions (PCTs) in a cost sharing arrangement (CSA) because only one participant to the CSA made nonroutine contributions. The IRS's income method model, however, reached an unreasonable, non-arm's length result because it used unreliable inputs. Reviewing the 2009 temporary

cost sharing regulations for the first time, the Tax Court held that Temporary Reg. § 1.482-7T is valid and reasonably implements Code Sec. 482.

The taxpayer entered into a cost sharing arrangement with its Irish subsidiary in 2010. The parties agreed to share the costs and risks of developing Facebook's online platform technology in exchange for ownership of the resulting intangible property in their territories: United States and Canada

for Facebook US, and rest-of-world for Facebook Ireland.

The Irish subsidiary agreed to make platform contribution payments in exchange for access to the preexisting intangibles developed and owned by the U.S. parent company. The taxpayer valued the PCT payment at \$6.3 billion. The IRS, using the income method, asserted a \$19.945 billion value for the PCT payment.

The income method generally requires a CSA participant that does not make its

### REFERENCE KEY

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

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own nonroutine platform contribution to pay the other participant for all of the financial benefits that the platform contribution is projected to generate in the PCT payor's territory, less a market-based return for the operating functions and risks the PCT payor commits to perform and bear in its territory plus its share of costs to further develop cost shared intangibles. The income method gives the PCT payor a routine return on its operations to exploit the cost shared intangibles and the PCT payee all of the nonroutine or residual benefits, following the "investor model" set forth in the 2009 temporary regulations.

The income method was the best method for valuing the Irish subsidiary's platform contribution payment because only the U.S. taxpayer made nonroutine platform contributions to the CSA. The Irish subsidiary could earn only a routine return for its operating contributions.

The IRS, however, "reaches an unreasonable result because [it] implements the income method in an unreasonable manner by adopting unreliable inputs." The IRS's implementation errors included: (1) use of overly optimistic financial projections reflecting revenue from not-yet-developed products, (2) use of an incorrect discount

rate that did not account for Facebook's private company status in 2010 and the immaturity of the rest-of-world market, and (3) misapplication of the regulation's "best realistic alternative" test. As a result, the IRS's PCT valuation did not produce an arm's length result. With the corrected income method inputs, the PCT payment value is \$7.786 billion.

Temporary Reg. 1.482-7T is a valid exercise of Treasury's regulatory authority even though the investor model underpinning the regulation is not based on comparable uncontrolled transactions.

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## IRS Reminds Taxpayers Living or Working Abroad to File 2024 Returns by June 16, 2025

*IR-2025-61*

The IRS has reminded U.S. citizens and resident aliens living or working abroad to file their 2024 federal income tax returns and pay any taxes due by June 16, 2025. This two-month extension from the standard April 15 deadline applies automatically to those whose principal place of business or duty station is outside the U.S. or Puerto Rico. Since June 15 falls on a Sunday this year, the deadline has been extended to the next business day. Taxpayers must attach a statement to their return indicating their eligibility for the extension. Taxpayers who cannot meet the June 16 deadline may request an extension to file until October

15, 2025. However, any tax owed after April 15 is subject to interest, regardless of the extended filing period.

Further, taxpayers abroad may qualify for key benefits such as the Foreign Earned Income Exclusion and the Foreign Tax Credit by filing a return. They must report all worldwide income, including from foreign trusts and financial accounts. Taxpayers may be required to file Form 8938, Statement of Specified Foreign Financial Assets, to disclose specified foreign financial assets and must complete Schedule B to report interest-bearing foreign accounts. In addition, those with financial interest in or signature authority over foreign accounts exceeding \$10,000

in aggregate at any time during 2024 must file FinCEN Form 114 (FBAR). Although the FBAR deadline was April 15, FinCEN grants filers an automatic extension to October 15. Both IRS and FinCEN require all foreign currency amounts to be reported in U.S. dollars using the December 31 exchange rate.

Additionally, the IRS has also reminded individuals in designated disaster areas, including taxpayers affected by the terrorist attacks in Israel, that they have until September 30, 2025, to file and pay. Taxpayers who expatriated in 2024 must file a dual-status return and refer to Publication 519 for further instructions.

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## TTB Tax Simplification Pilot Program Established for Brewers

*Industry Circular 2025-1, Alcohol and Tobacco Tax and Trade Bureau, April 30, 2025*

Certain brewers are authorized to participate in an Alcohol and Tobacco Tax and Trade Bureau (TTB) Tax Simplification Pilot Program. Filers will submit their excise tax returns and operational data

using new simplified and consolidated forms.

Brewers who hold a TTB-approved Brewer's Notice (TTB Form 5130.10), and who pay their Federal excise taxes on beer to the TTB on a semimonthly, quarterly, or annual basis are eligible to participate. However, brewers that are

required to prepay their taxes are not eligible.

TTB encourages feedback from pilot participants on their use of the pilot forms and the form instructions to guide improvements. Participants can provide feedback at any time through the Tax Simplification Contact Us webpage.

# TAX BRIEFS

## *Business Expense Deduction*

The Tax Court did not err in finding that a film company launched by an individual was not an activity engaged in for profit. Therefore, the individual was not entitled to take income tax deductions for expenses arising from that activity. Further, the Tax Court did not clearly err in sustaining the addition for failure to file a timely return under Code Sec. 6651. The taxpayer did not present any evidence to show that his failure to timely file his return was due to reasonable cause.

*J.W. Sherman, CA-9, 2025-1 USTC ¶150,167*

## *Excise Taxes*

The district court determined how fractional aircraft ownership programs were supposed to collect and remit federal excise

taxes before March 31, 2012, prior to the date the exclusion from the excise tax for fractional ownership program operators went into effect. The taxpayer who operated a fractional aircraft ownership program failed to pay its tax in full and instead paid a divisible portion of the tax. For the relevant time periods, the taxpayer was providing “taxable transportation” subject to the federal excise tax and the taxable “amounts paid” for such transportation included the monthly management and membership fees that customers paid to the taxpayer.

*Flight Options, LLC, DC Ohio*

## *Net Operating Losses*

A married couple was not entitled to claim net operating loss (NOL) carryovers in the

tax years at issue. The underlying losses, attributed to the closure and demolition of a guest lodge, were not incurred in a trade or business.

*Root, TC, Dec. 62,664(M)*

## *Partnerships*

A limited partnership classified as a TEFRA partnership was not entitled to exclude its limited partners’ distributive shares from net earnings from self-employment under Code Sec. 1402(a)(13). The Tax Court found that the individuals materially participated in the partnership’s investment management business and were not acting as limited partners “as such.”

*Soroban Capital Partners LP, Dec. 62,665(M)*