



FEDERAL TAX WEEKLY

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Tax Pros: Be Prepared for Tax Changes and Focus on the Immediate - AICPA

The signing into law of the One Big Beautiful Bill will bring about some significant tax changes and tax professionals need to start preparing for those changes right away, and pay close attention to how those changes are being implemented.

“There are still a lot of unknowns,” American Institute of CPAs Vice President of Tax Policy & Advocacy Melanie Lauridsen said in an interview. “A lot of what’s in [the bill] is new, and because a lot of things are new, there are questions we know, but there’s a lot of things we don’t know.”

One question that has already surfaced among tax professionals is the bonus deduction for individuals aged 65 and older that supplements the standard deduction and begins phasing out for individuals with income more than \$75,000 and those taxpayers that are married and filing jointly at \$150,000.

“It seems so simple right off the cuff, right?” Lauridsen said. “But it’s not and a lot of provisions are that way.”

She noted that differing opinions from tax professionals, which was occurring on a social media post, “comes down to the way that they read the law [and] the interpretation of that law,” making the need for timely guidance from the Internal Revenue Service, especially for provisions that are retroactive to the beginning of the 2025 tax year, imperative.

Jan Lewis, AICPA vice chair, stressed the need to track and follow the guidance that will be forthcoming from the IRS and make sure that tax professionals are using reliable sources for their information.

“There’s a lot of misinformation [and] miscommunication, and of course, nowadays, all you gotta do is go to YouTube and you can find five different webinars on the One Big Beautiful Bill,” Lewis said. “Are they all right? Probably not.”

The fact that it the middle of the year should allow the IRS to get guidance out and time for Congress to issue the inevitable technical corrections to the bill.

Lauridsen stressed that tax professionals need to stay on top “double check your information,” noting that AICPA has seen situations where “I could say something today because it holds and it may be accurate today, but tomorrow might a completely different game and what I said yesterday is now inaccurate.”

She noted when the Tax Cuts and Jobs Act went into effect, there were a lot of guidance issued through FAQs and depending on when you filed, an FAQ might have provided different guidance.

Lauridsen also expressed concern about the timeliness of guidance in the context of the workforce reduction at the IRS, as well as having personnel at the agency to answer questions.

“Treasury’s got to come up with new forms, new lines on forms, for all these new deductions,” such as tips and overtimes and revising the Forms W-2 and W-4, Lewis added. “It’s a heavy lift.”

“It is something that we’re going to keep watching,” Lauridsen said, especially if it is a question only the IRS can answer.

Focus On The Immediate

Lewis said that at a recent luncheon she spoke at, she was asked about the forthcoming Trump savings accounts, which kind of surprised her as “they’re not going to happen until next year,” adding that CPAs should be focused on the provisions that will be happening immediately.

And while that specifically will depend on who the client base is for a given CPA or firm, Lewis noted that they are receiving a lot of calls related to the overtime and tips provisions, which she described as a “big topic.”

“It affects the entire calendar year of 2025,” she continued. “It affects our individual clients because they may qualify. It affects [tax] planning because of the phase outs. Do they have to be careful whether they qualify?” Also, she noted that whether you are married could also impact planning.

Defined Benefit Plan Mortality Improvement Rates and Static Mortality Tables Updated

The IRS has updated static mortality tables to be used for defined benefit pension plans under Code Sec. 430(h)(3)(A) and ERISA Sec. 303(h)(3)(A). These updated static mortality tables apply in calculating the funding target and other items for valuation dates occurring during the 2026 calendar year.

The IRS also includes a modified unisex version of the mortality tables for use in determining minimum present value under Code Sec. 417(e)(3) and Sec. 205(g)(3) of ERISA for distributions with annuity starting dates that occur during stability periods beginning in the 2026 calendar year.

Notice 2025-40

The state and local tax deduction also going to require some consideration and whether the changes in the SALT deduction will have potential impacts on clients.

“I do think we are still in an education process over SALT,” Lewis said.

For businesses, she noted the provisions related to the expensing of research and development expenses as well as bonus depreciation will be key to understand if CPAs have clients affected by it and will potentially require more planning based on when they go into effect and whether a client qualifies for it.

IRS Details New Deductions for Tips, Overtime, Car Loans, and Seniors

FS-2025-3

The IRS has outlined key provisions of the One Big Beautiful Bill Act (P.L. 119-21), signed into law on July 4, 2025, that introduce new deductions beginning in tax year 2025. The deductions apply through 2028 and cover qualified tips, overtime pay, car loan interest, and a special allowance for seniors.

Under the “No Tax on Tips” provision, employees and self-employed individuals may deduct up to \$25,000 in voluntary cash or charged tips received in IRS-designated tip-based occupations. Tips must be reported on Form W-2,

Form 1099 or directly on Form 4137. The deduction phases out for modified adjusted gross income above \$150,000 (\$300,000 for joint filers). Self-employed individuals engaged in a Specified Service Trade or Business under Code Sec. 199A and employees of SSTBs are ineligible.

The “No Tax on Overtime” provision permits workers to deduct the premium portion of overtime pay required under the Fair Labor Standards Act. The deduction is capped at \$12,500 (\$25,000 for joint filers), with a similar income-based phaseout.

The “No Tax on Car Loan Interest” rule allows individuals to deduct up to \$10,000 in interest on loans used to purchase new,

personal-use vehicles assembled in the U.S. Qualifying loans must originate after December 31, 2024, and be secured by the vehicle. Used and leased vehicles do not qualify. The deduction phases out for income above \$100,000 (\$200,000 for joint filers).

Finally, taxpayers aged 65 or older can claim a new \$6,000 deduction per person in addition to the current senior standard deduction. The deduction phases out above \$75,000 (\$150,000 for joint filers).

All deductions are available to itemizing and non-itemizing taxpayers. Transition relief for tax year 2025 will be provided.

REFERENCE KEY

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

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Large Corporation Audits Down as IRS Focuses on High-Income Individuals and Partnerships

Audits of high-income individuals and partnerships have increased in recent years as audits on large corporations have decreased in response to the Internal Revenue Service's focus on the former group, the Treasury Inspector General For Tax Administration found.

In a report on trends in compliance activities through fiscal year 2023 dated July 10, 2025, examination starts for partnerships increased 63 percent from fiscal year (FY) 2020 (4,106 starts) to FY 2023 (6,709 starts), while examination starts decreased 18 percent in the same time frame from 1,700 to 1,400.

For individuals, the overall combined number of examinations open and closed from FY 2020 through 2023 decreased from 466,921 to 400,446. For individuals with income tax returns of \$400,000 or less, the percentage of examinations opened and closed dropped from 94.8 percent to 91.2 percent (442,856 to 365,229) while the percentage of examinations opened and closed for individual income tax returns more than \$400,000 increased from 5.2 percent to 8.8 percent (24,065 to 35,217).

"The IRS planned to increase enforcement activities to help ensure tax compliance among high-income and high-wealth individuals," TIGTA reported, adding that it planned to use the supplemental funding provided by the Inflation Reduction Act and that the IRS as of May 2024, the agency plans to audit twice the

number of individual returns with more than \$400,000 in FY 2024 compared to FY 2023.

However, whether the IRS will be able to meet any compliance goals for both individuals as well as partnerships and corporations is questionable, with agency's "ability to move forward with hiring efforts in these complex audit areas of corporations, partnerships and high-income individuals is uncertain considering the decreased enforcement funding and recent government staffing cuts."

To that end, the agency's Field Collection, Campus Collection, and Examination staff is already on a downward trend.

TIGTA reported that the staff decreased from 18,472 employees in FY 2020 to 17,475 in 2023 due to attrition. The Collection staff slightly increased from 7,246 to 7,371 and the Examination staff decreased from 11,226 to 10,104.

"The status of the IRS's IRA plan, other IRA transformational initiatives, along with the IRS's hiring plans is uncertain, at best," TIGTA reported. "Although the IRS made substantial progress with hiring 4,048 revenue officers and revenue agents in FY 2024, the recissions of IRA funding, the hiring freeze, early retirement incentives, and future reductions in force present a challenge to improving taxpayer service and enforcing the nation's tax laws."

The report also noted that in FY 2023, \$10.1 billion in enforcement revenue was

collected by the Automated Collection System. Field Collection collected a total of \$5.9 billion.

In a separate report dated July 10, 2025, TIGTA reported the IRS planned to increase examinations of individuals, partnerships, and businesses reporting total positive income of more than \$400,000 in FY 2024. The average starts from FY 2019-2023 was 29,466 and the IRS planned to increase that to 70,812. At the same time, the number of returns with a total positive income reported of less and \$400,000 is planned to decrease from an average of 452,051 from FY 2019-2023 to 354,792 in FY 2024. But it is not clear whether the agency will be able to meet these targets even though it was on track to meet these goals.

The agency "has not defined key terminology or aspects of its methodology for compliance to meet with these goals as outlined in the 2022 Treasury Directive that higher income earners would be targeted for audit," TIGTA reported. "The IRS stated that the FY 2024 plan was created with the assumptions available at the time. Any subsequent decisions about these issues could affect the effectiveness of future examination plans in meeting compliance requirements."

TIGTA did not make any recommendations in either report and the IRS did not make any comments on them.

Proposed Regulations on Built-in Gain and Loss Withdrawn

NPRM REG-125710-18

The Treasury Department and the IRS have withdrawn proposed rules addressing the treatment of built-in income, gain, deduction, and loss taken into account by a loss corporation after an ownership change under Code Sec. 382(h). The withdrawal, effective July 2, 2025, follows public criticism on the proposed regulations' approach.

The proposed rules were Reg. §1.382-1, proposed on September 10, 2019 (84 FR 47455), and Reg. §§1.382-1, 1.382-2 and 1.382-7, proposed on January 14, 2020 (85 FR 2061). The proposed regulations would have adopted as mandatory, with certain modifications, (a) the safe harbor net unrealized built-in gain (NUBIG) and net unrealized built-in loss (NUBIL) computation provided in Notice 2003-65, 2003-40 I.R.B. 747, based on

the principles of Code Sec. 1374, and (b) the "1374 approach," (as described in Notice 2003-65) for the identification of recognized built-in gain and recognized built-in loss. The IRS considered that the 1374 approach would make it easier for taxpayers to calculate built-in gains and built-in losses and comply with Code Sec. 382(h).

The IRS received critical comments from practitioners on the proposed rules,

leading the agency to conclude that further study is needed before issuing any new proposed regulations.

The proposed regulations are withdrawn. Taxpayers may continue to rely on Notice 2003-65 for applying Code Sec.

382(h) to an ownership change before the effective date of any temporary or final regulations under Code Sec. 382(h).

Reissued Retirement Plan Check Reporting Addressed

Rev. Rul. 2025-15

The IRS has released guidance clarifying the withholding and reporting obligations for employers and plan administrators when a retirement plan distribution check is uncashed and later reissued.

In the scenario addressed, a plan administrator issued an \$800 designated distribution to a former employee, withheld the correct amount of federal income tax under Code Sec. 3405, and sent the remaining balance by check. When the check went uncashed and was subsequently voided, a second check was mailed. Because the

original withholding amount was correct and fully remitted, the IRS has concluded that no refund or adjustment is available under Code Secs. 6413 or 6414, as there was no overpayment involved.

For the second check, the IRS has stated that no further withholding is required if the amount reissued is equal to or less than the original distribution. However, if the new amount exceeds the prior distribution—due, for example, to accumulated earnings—the excess portion is treated as a separate designated distribution subject to new withholding under Code Sec. 3405.

Concerning reporting obligations, the IRS noted that Code Sec. 6047(d) requires a Form 1099-R to be filed for designated distributions of \$10 or more. For the first check, the \$800 distribution must be reported for the applicable year, with the full amount listed in Boxes 1 and 2a, and the tax withheld in Box 4. No additional reporting is required for the second check if the amount is equal to or less than the original. However, if the second check includes an excess of \$10 or more, that additional amount must be reported on a separate Form 1099-R for the year in which the second distribution occurs.

Current Plan Liability Rates Set for July 2025

Notice 2025-39

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

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

Corporate Bond Rate

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

- 4.90 for the first segment rate,
- 5.36 for the second, and
- 5.62 for the third.

July 2025 Adjustment Segment Rate

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

- 4.90 for the first segment rate,
- 5.36 for the second, and
- 5.62 for the third.

The rates for plan years beginning in 2025 are:

- 4.90 for the first segment rate,
- 5.31 for the second, and
- 5.62 for the third.

30-Year Treasury Weighted Average

For plan years beginning in July 2025, the 30-year Treasury weighted average securities rate is 4.12, with a permissible range of 3.71 to 4.33 under Code Sec. 431(c)(6)(E)(ii)(I).

The rate of interest on 30-year Treasury securities for June 2025 is 4.89 percent.

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

- 4.43 for the first segment rate,
- 5.46 for the second, and
- 6.13 for the third.

Zero-Emission Nuclear Power Production Credit Inflation Adjustments and More Released

Notice 2025-37

The IRS has published inflation adjustment factors and applicable amounts for

determining the credit for (1) zero-emission nuclear power production; (2) production of clean hydrogen; and (3) clean fuel production for calendar year 2025.

Sale of Electricity

The inflation adjustment factor for sales of electricity is 1.0242. The amount provided

under Code Sec. 45U(b)(2)(A)(ii)(II)(aa) is 2.6 cents.

Qualified Clean Hydrogen

The inflation adjustment factor under Code Sec. 45V for qualified clean hydrogen is 1.0611. The figures for qualified clean hydrogen resulting in a lifecycle GHG emissions rate of:

- not greater than 4 kilograms of CO₂e per kilogram of hydrogen, and not

less than 2.5 kilograms of CO₂e per kilogram of hydrogen, the applicable amount is 0.127;

- less than 2.5 kilograms of CO₂e per kilogram of hydrogen, and not less than 1.5 kilograms of CO₂e per kilogram of hydrogen, the applicable amount is \$0.159;
- less than 1.5 kilograms of CO₂e per kilogram of hydrogen, and not less than 0.45 kilograms of CO₂e per kilogram of hydrogen, the applicable amount is \$0.213; and

- less than 0.45 kilograms of CO₂e per kilogram of hydrogen, the applicable amount is \$0.637.

SAF Transportation Fuel

The alternative amount for Non-SAF Transportation fuel sold under Code Sec. 45Z(a)(2)(B) is \$1.06.

The alternative amount for SAF Transportation fuel sold under Code Sec. 45Z(a)(2)(B) is \$1.86.

Premium Tax Credit Table, Required Contribution Percentage Updated

Rev. Proc. 2025-25

The IRS has updated the applicable percentage table used to calculate an individual's premium tax credit and required contribution percentage for plan years beginning in calendar year 2026. This percentage is used to determine whether an individual is eligible for affordable employer-sponsored minimum essential

coverage, as well as to determine whether an individual is eligible for an exemption from the individual shared responsibility payment due to a lack of affordable minimum essential coverage. For plan years beginning in 2026, the required contribution percentage under Code Sec. 36B is 9.96 percent. Further, the IRS and the Treasury Department have determined that the failsafe exception described in Code

Sec. 36B(b)(3)(A)(ii)(III) applies for calendar year 2026, and no additional adjustment under Code Sec. 36B(b)(3)(A)(ii)(II) is required for calendar year 2026. The guidance is effective for tax years and plan years beginning after December 31, 2025.

Rev. Proc. 2014-37, I.R.B. 2014-33, 363 is supplemented.

Estate Ineligible To Use DSUE Amount

B.S. Rowland, Est., TC Memo. 2025-76, Dec. 62,693(M)

A decedent's estate could not reduce its estate tax liability by using the deceased spousal unused exclusion (DSUE) of his predeceased spouse because a timely election under Code Sec. 2010(c)(2)(B) was not made.

The value of the predeceased spouse's gross estate was less than the basic exclusion amount applicable in the year of death. The estate tax return was filed late and reflected payments to 13 beneficiaries, including her children, friends, grandchildren, a collegiate foundation, and a trust for a great grandchild. A portion of her estate given to a family charitable foundation, plus a bequest to the decedent, equalled one-fourth of her gross estate, with the remainder funding trusts for her grandchildren.

The estate tax return listed assets and estimated the gross value of the estate but did not provide any information as to the fair market value of the assets. On the decedent's estate tax return, the DSUE amount calculated on his predeceased wife's return was added to the applicable exclusion amount available to the decedent, resulting in a claimed refund. The IRS asserted that the decedent's estate was ineligible to use the DSUE amount because an election was not timely made and the predeceased spouse's return was not a "complete and properly prepared estate tax return."

Timeliness of the Return

Although the predeceased spouse's return was filed late, it was filed within the time provided in Rev. Proc. 2017-34. Reg.

§20.2010-2(a)(7)(ii) provides a special rule for marital or charitable deduction property if the estate is not required to file a return under Code Sec. 6018(a). In that case, the executor is not required to report the value of the property, but only the description, ownership, and/or beneficiary of the property, plus any information necessary to establish the estate's right to the deduction. However, the special rule does not apply to if the value of the property "relates to, affects, or is needed to determine, the value passing from the decedent to a recipient other than the recipient of the marital or charitable deduction property."

The predeceased spouse's return did not properly identify and describe the nonmarital and noncharitable property. In addition, the special rule did not apply to the marital and charitable deduction property because the value of the property "relates

to, affects, or is needed to determine” the value of the property passing to the grandchildren’s trusts. As a result, it was not a complete and properly prepared return, and the DSUE amount election was not timely.

Substantial Compliance and Equitable Estoppel

The estate failed to show that the predeceased spouse’s return did all that it could reasonably do to comply with the regulations. As a result, the estate could not be considered to have substantially complied with the requirements. Similarly, the estate did not establish the necessary components for estoppel.

IRS Warns Tax Professionals of Rising Phishing Threats

IR-2025-75

The IRS has issued a warning to tax professionals regarding a rise in phishing emails and cyber threats aimed at stealing sensitive taxpayer data. This alert has been released as part of the second installment of the “Protect Your Clients; Protect Yourself” summer series, a joint initiative of the Security Summit. The campaign has emphasized early awareness and practical defense strategies to counter identity theft and fraud targeting tax practitioners.

As phishing tactics have grown more sophisticated, the IRS has highlighted several evolving threats, including clone phishing, spear phishing, and whaling. These schemes often involve deceptive messages impersonating trusted sources, aiming to gain access to confidential information or install malware. The Service has advised tax professionals to watch for urgent messages, unfamiliar links or slight variations in email addresses, all of which are signs of malicious intent. The IRS has

Applicable Federal Rates for August 2025 Released

Rev. Rul. 2025-14

The IRS has released the short-term, mid-term, and long-term applicable interest rates for August 2025.

Applicable Federal Rates (AFR) for August 2025

	Annual	Semiannual	Quarterly	Monthly
Short-Term				
AFR	4.03%	3.99%	3.97%	3.96%
110% AFR	4.44%	4.39%	4.37%	4.35%
120% AFR	4.85%	4.79%	4.76%	4.74%
130% AFR	5.26%	5.19%	5.16%	5.13%
Mid-Term				
AFR	4.06%	4.02%	4.00%	3.99%
110% AFR	4.47%	4.42%	4.40%	4.38%
120% AFR	4.88%	4.82%	4.79%	4.77%
130% AFR	5.30%	5.23%	5.20%	5.17%
150% AFR	6.12%	6.03%	5.99%	5.96%
175% AFR	7.16%	7.04%	6.98%	6.94%
Long-Term				
AFR	4.82%	4.76%	4.73%	4.71%
110% AFR	5.31%	5.24%	5.21%	5.18%
120% AFR	5.79%	5.71%	5.67%	5.64%
130% AFR	6.29%	6.19%	6.14%	6.11%

Adjusted AFRs for August 2025

	Annual	Semiannual	Quarterly	Monthly
Short-term adjusted AFR	3.05%	3.03%	3.02%	3.01%
Mid-term adjusted AFR	3.07%	3.05%	3.04%	3.03%
Long-term adjusted AFR	3.64%	3.61%	3.59%	3.58%

The Code Sec. 382 adjusted federal long-term rate is 3.64%; the long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months) is 3.71%; the Code Sec. 42(b)(1) appropriate percentages for the 70% and 30% present value low-income housing credit are 8.03% and 3.44%, respectively, however, under Code Sec. 42(b)(2), the appropriate percentage for non-federally subsidized new buildings placed in service after July 30, 2008, shall not be less than 9%; and the Code Sec. 7520 AFR for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest is 4.80%.

urged practitioners to remain cautious when receiving unsolicited emails or client inquiries, especially those containing attachments or embedded links.

To strengthen office security, the IRS encourages use of the “Security Six” protections, which include anti-virus software, firewalls, multi-factor authentication, data backup, drive encryption, and Virtual Private Network (VPN)

usage. Tax professionals experiencing or suspecting a data breach have been asked to contact their IRS Stakeholder Liaison immediately. The Service recommends reviewing resources such as Publication 5293 and Publication 4557 for additional data protection guidance. Upcoming IRS Nationwide Tax Forum sessions continue to focus on these cybersecurity priorities.

Base Erosion Payments

An eligible taxpayer who does not apply the Reg. §1.482-9(b) services cost method to determine the appropriate arm's-length price for services rendered to the taxpayer by a foreign related party, may exclude the cost portion of those amounts paid or accrued for services under the Code Sec. 59A(d)(5) services cost method exception to base erosion payments. However, if a taxpayer does not apply the Reg. §1.482-9(b) services cost method to determine the appropriate arm's-length price, books and records prepared to document the taxpayer's Code Sec. 482 method may not satisfy requirements under Reg. §1.59A-3(b)(3)(i)(C) which are independent of record-keeping requirements imposed by other provisions.

*Chief Counsel Advice Memorandum
202529008*

Charitable Contribution Deduction

In each of four consolidated cases, the partnerships' noncash charitable contribution deductions were disallowed in full because the attached appraisals were not qualified appraisals.

Rock Cliff Reserve, LLC, TC, Dec. 62,690(M)

Disaster Relief

A July 9, 2025 notice granting relief to victims of Texas affected by severe storms, straight-line winds, and flooding that began on July 2, 2025, in parts of Texas was updated by the IRS on July 11, 2025, to include Burnet, Kendall, Kimble, Menard, San Saba, Tom Green, Travis, and Williamson counties.

Texas Disaster Relief Notice (TX-2025-04)

IRS

The IRS has issued corrections to final regulations concerning the resolution of federal tax disputes by the IRS Independent Office of Appeals, (T.D. 10030). The corrections rectify certain typographical errors and references in the final regulations. The corrections are effective upon publication in the Federal Register on July 18, 2025.

TD 10030, Correction

Penalties

The IRS obtained written supervisory approval of penalties before issuing a Final Partnership Administrative Adjustment (FPAA) to a TEFRA partnership that claimed a charitable deduction for a conservation easement.

Sand Valley Holdings, LLC, TC, Dec. 62,691(M)

An IRS revenue agent examining a BBA partnership's conservation easement deduction properly secured written penalty approval from the acting group manager before issuing a Final Partnership Adjustment (FPA).

*Jefferson Property Holdings, LLC, TC, Dec.
62,692(M)*

The taxpayer, an IRS employee, was assessed civil fraud penalties under Code Sec. 6663(a) after the Tax Court determined that the taxpayer knowingly filed false returns claiming fabricated business losses and unsubstantiated deductions.

Muhammad, TC, Dec. 62,694(M)

Substitute Returns

The IRS has provided the specifications for the private printing of red-ink substitutes for the 2025 revisions of information returns, preparing acceptable substitutes of the official forms, and using official or acceptable substitute forms to furnish information to recipients. The procedures cover Forms 1096, 1097-BTC, 1098 series, 1099 series, 3921, 3922, 5498 series, W-2G, and 1042-S. This procedure will be reproduced as the next revision of IRS Publication 1179. Rev. Proc. 2024-29, I.R.B. 2024-29, 129, is superseded.

Rev. Proc. 2025-22