



FEDERAL TAX WEEKLY

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More IRS Funding in the GOP Crosshairs

House Republicans have begun the process of taking more money away from the Internal Revenue Service through a 20.4 percent reduction in the Treasury budget for fiscal year 2026.

The House Appropriations Financial Services and General Services Subcommittee on July 21, 2025, voted 9-6 along party lines to approve a financial services and general services appropriations bill for the fiscal year ending September 30, 2026.

The bill funds the Department of the Treasury at \$11.29 billion for the coming fiscal year, \$2.89 billion less than the funding levels enacted for fiscal year 2025.

During a July 21, 2025, markup of the appropriations bill, Subcommittee Ranking Member Steny Hoyer (D-Md.) criticized the bill for including a specified \$2.4 billion reduction in funds that would be used for enforcement activities, a 45 percent reduction in enforcement funds compared to the enacted budget for fiscal year 2025.

In addition to the decrease in money that would go unrecovered from the loss of funds, Sen. Hoyer noted, the funding reduction would “undermine customer service for Americans trying to contact [the] IRS about questions on their taxes.”

Additionally, according to a summary, the bill also features a number of administrative provisions, including:

- A prohibition on the IRS’s targeting individuals or groups for exercising their First Amendment rights or ideological beliefs;
- A prohibition on the IRS’s using funds to develop a free electronic return-filing service option without prior Congressional approval;
- A prohibition on using funds for unconstitutional or beneficial ownership reporting rules that are inconsistent with statutory intent; and
- A direction that the Inspector General to oversee COVID-19 pandemic programs.

Overall, the bill reduces a total discretionary allocation of \$23.341 billion by \$410 million below the fiscal 2025 allocation, a 7.9 percent reduction.

GAO Report Highlights IRS Challenges to Improving Taxpayer Experience

Funding uncertainty and a constantly changing tax law environment are presenting the Internal Revenue Service with challenges as it works to meet legislative and executive mandates to improve the taxpayer experience.

A July Government Accountability Office report highlighted three specific challenges that the agency is facing as it works to improve the taxpayer experience.

The GAO noted that “uncertainty about stable multiyear funding hinders efforts to modernize IRS computer systems and offer digital services to quickly resolve taxpayer issues.”

The IRS had been using the supplemental funding provided by the Inflation Reduction Act (IRA) to help address these issues, but that funding has been a constant target of Republicans in Congress as well as the current Trump Administration, despite regular calls for stable and adequate funding.

The second challenge reported by the GAO was that “complicated and changing tax laws limit IRS’s ability to offer timely guidance to taxpayers,” though agency officials said it had plans in place to ensure the that guidance flowing from the IRS is provided in a manner that is accurate, up-to-date, and available in a user-friendly format.

Staffing was highlighted as the third challenge.

The GAO reported that “being unable to hire enough staff trained to help taxpayers can undercut the ability to optimally improve taxpayer experiences. IRS officials said IRS had efforts to boost hiring and training as well as improved systems to enable staff to improve taxpayer experiences.”

However, in March 2025, “IRS officials said it was unclear how reductions to its IRA funding and to its staffing will affect these efforts to address the challenges,” the GAO reported.

The government watchdog also noted that the IRS has not established key practices to:

- Define taxpayer experience goals related to service improvements;
- Generate new evidence from measures, analytical tools, and dashboards to track progress with the taxpayer experience goals;
- Involve external stakeholders to help assess the effects of its service improvements on the taxpayer experience; and
- Promote accountability for achieving the taxpayer experience goals.

“IRS officials said establishing an evidence-based approach using these and other key practices has been delayed,” the GAO reports. “The IRS offices that had

IRS Provides Indexing Adjustments for Applicable Dollar Amounts

The IRS has issued indexing adjustments for the applicable dollar amounts under Code Sec. 4980H(c)(1) and (b)(1), which are used to determine the employer shared responsibility payments (ESRP). This updated guidance is effective for taxable years and plan years beginning after December 31, 2025.

Adjusted Items

The Department of Health and Human Services (HHS) published the premium adjustment percentage for 2026 on June 25, 2025. This figure was calculated using the most recent National Health Expenditure Accounts (NHEA) data available, specifically the NHEA Projections 2023–2032. The premium adjustment percentage for 2026 is based on the ratio of projected per-enrollee premiums for private health insurance in 2025 (\$7,885) to those in 2013 (\$4,714), yielding a premium adjustment percentage of 1.6726771319.

Accordingly, for calendar year 2026:

- the adjusted \$2,000 amount under Code Sec. 4980H(c)(1) is \$3,340 ($\$2,000 \times 1.6726771319 = \$3,345.3542638$, rounded down to \$3,340), and
- the adjusted \$3,000 amount under Code Sec. 4980H(b)(1) is \$5,010 ($\$3,000 \times 1.6726771319 = \$5,018.0313957$, rounded down to \$5,010).

Rev. Proc. 2025-26

IRS Offers Summer Help for Late Filers

The IRS has reminded individuals who missed the April filing deadline that help is still available. If a taxpayer owes taxes or has not filed yet, the following tools available on IRS.gov can help reduce potential penalties and interest:

- File your tax return.
- Track your refund using “Where’s My Refund?”
- Make a payment or set up a payment plan.
- Create an IRS Online Account to view your balance, payment history, tax records, and more.

In addition, IRS has offered assistance through Taxpayer Assistance Centers, phone support, and a range of online resources to help late filers navigate the process. For more details, visit the Let Us Help You page.

IR-2025-76

been coordinating IRA and taxpayer experience initiatives were disbanded in March 2025 and April 2025, respectively, according to IRS officials.”

GAO recommends that the agency “fully establish an evidence-based approach to determine the effects of service improvements on the taxpayer experience.”

REFERENCE KEY

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

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IRS Issues Interim Guidance to Improve LB&I Examinations Process

IR-2025-77

The IRS has issued an Interim Guidance Memorandum (IGM), Reinforcing the Customer Focused, High Efficiency Large Business & International Examination Process, aimed at reducing case cycle times for corporate taxpayers and making examinations more customer-driven, consistent and efficient. The memorandum promotes a collaborative approach between the IRS and large corporate taxpayers to streamline audit procedures, reduce case cycle times, and enhance overall taxpayer service.

Key procedural changes include phasing out the Acknowledgment of Facts (AOF) Information Document Request process by the end of 2025 due to limited value and extended timelines. The guidance also expands the use of Accelerated Issue Resolution (AIR) to Large Corporate Cases, allowing resolved issues to apply across all years under audit in the current cycle. In addition, the IRS has introduced stronger internal review requirements before denying Fast Track Settlement (FTS) requests, promoting broader access to expedited resolution. These changes will be implemented throughout 2025 and 2026, with public feedback encouraged.

IRS Warns Business Tax Account Access Must Be Revalidated by July 29

The IRS has issued a final reminder that Designated Officials must revalidate their Business Tax Account (BTA) access by July 29, 2025, or lose access. Officials who do not revalidate by the deadline must reapply for access, either as Designated Officials or in another user role. Revalidation requires logging into the BTA system and providing a W-2 for the most recent tax year or documentation demonstrating legal authority to act on behalf of the business entity for tax purposes. This revalidation is part of the IRS's ongoing effort to improve data security and ensure that only authorized individuals can manage business tax matters online. The BTA, when fully developed, will allow users to view tax history, make payments, authorize powers of attorney, and access notices. To assist with the revalidation process, the IRS has released Publication 5904 and a Business Tax Account Overview video.

FS-2025-4

IRS Broadens Access to Tax Resources Through Inclusive Media Formats

The IRS has provided updated information to help individuals access tax resources in formats that meet their needs. To support taxpayers who use assistive technology, the IRS Alternative Media Center offers accessible products such as screen reader-compatible files, Braille-ready documents, large print formats, and audio versions. Many tax forms and publications are also available in Spanish and browser-friendly formats to improve accessibility for all users.

Taxpayers have been encouraged to download accessible forms and publications from the IRS website or request printed copies by phone. To receive IRS tax notices in formats like Braille, large print, or audio, individuals can select their preference through their IRS Online Account, submit a specific form with their tax return, or call for assistance. Once processed, notices will be issued in the requested format to support continued accessibility.

Further, the IRS has made language accessibility a priority, offering notices in multiple languages and working to expand these resources. While the Accessibility Helpline can assist with questions about formats and services, it does not provide account-specific help. For tax questions or issues related to refunds, individuals have been advised to use additional tools available on the IRS website. By promoting inclusive access, the IRS aims to ensure all taxpayers can meet their obligations effectively.

Tax Tip 2025-51

Individual Not Entitled to Deductions or Depreciation for Investment Activity

Cardulla, CA-9, 2025-2 USTC ¶150,194

An individual's deductions and depreciation related to real estate were denied because the individual's real estate activity did not constitute a trade or business and

the expenses were not substantiated. The Tax Court disallowed the deductions, and the Court of Appeals affirmed.

The individual began reporting business-related expenses and depreciation for two tax years but failed to

demonstrate that the subject property was used in an active trade or business. The Tax Court found that the activity reflected investment intent, not business use. The Court of Appeals agreed that the individual did not establish the presence

of ongoing operations or a profit-driven enterprise.

The Tax Court also found that the individual failed to maintain adequate records to support the claimed deductions. The

Court of Appeals held that, absent credible documentation, the burden of proof remained with the individual, and that the disallowance of deductions was proper. The Court of Appeals further rejected

procedural objections concerning witness exclusion and post-trial briefing, finding no support in the record. Arguments raised for the first time on appeal were not considered.

TAX BRIEFS

Disaster Relief

The president has declared a federal disaster area in the state of New Mexico. The disaster is due to severe storms, flooding, and landslides that began on June 23, 2025. The disaster area includes the counties of:

- Chaves,
- Lincoln,
- Otero, and
- Valencia.

Taxpayers who live or have a business in the disaster area may qualify for tax relief.

New Mexico Disaster Relief Notice (NM-2025-03)

Disbarments

The IRS's Office of Professional Responsibility has published the names of attorneys, certified public accountants (CPAs), enrolled agents, enrolled actuaries, enrolled retirement plan agents, and appraisers who have been disbarred from practice before the IRS, have consented to suspensions from practice, have been placed under suspension from practice under the expedited proceeding provisions, or have consented to the issuance of a censure. Attorneys, CPAs, enrolled agents, enrolled actuaries, and enrolled retirement plan agents are barred from accepting assistance from, or assisting, any disbarred or suspended practitioner if the assistance relates to a matter constituting practice before the IRS; further, they cannot knowingly aid or abet another person in practicing before the IRS during the

period of that person's suspension, disbarment, or ineligibility.

Announcement 2025-20

Insurance

The Tax Court had previously held that a micro-captive insurance arrangement was not an insurance company and, thus, the exclusion under Code Sec. 831(b) did not apply and the payments it received were income. In a supplemental opinion, it was held that (1) taxpayers were not entitled to exclude amounts paid to them as insurance premiums from income; and (2) the taxpayers must recognize the amount received as income in the year 2015 and report it as unearned insurance premiums.

Jones, TC, Dec. 62,695(M)

Penalties

An individual taxpayer failed to contest the calculation of his tax liabilities. The liabilities were unpaid federal income taxes, penalties, and interest. Additional statutory fees and penalties continued to accrue. The taxpayer failed to demonstrate any genuine dispute of material fact or raise a valid defense.

Reeves, DC Ga., 2025-2 USTC ¶50,196

The IRS obtained timely written supervisory approval of penalties before issuing a Final Partnership Adjustment (FPA) to a BBA partnership that claimed a conservation easement deduction. The examining agent proposed a penalty under Code Sec.

6662(h) with alternatives, and the immediate supervisor approved the same.

River Moss Property, LLC, TC, Dec. 62,696(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 Form W-2 (Copy A) and Form W-3. Further, the procedures outline the official specifications for a form or statement to be acceptable.

Rev. Proc. 2025-24

Tax Debt

An individual's challenge to the IRS's certification of seriously delinquent tax debt under Code Sec. 7345 was dismissed as moot after the IRS reversed the certification and the passport restriction was lifted.

Leigh, DC Fla., 2025-2 USTC ¶50,198

Whistleblower Claims

The IRS collected no proceeds against a target corporation. Therefore, the Tax Court properly held that a whistleblower was not entitled to any award. The whistleblower's remaining claims were properly denied. The IRS took no action because the target was a defunct corporation.

Kennedy, CA-D.C., 2025-2 USTC ¶50,199