



# FEDERAL TAX WEEKLY

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## IRS Releases Draft Tax Form for OBBBA Deductions

The IRS has released a draft tax form for comment that would cover deductions in the recently One Big Beautiful Bill Act.

The form, named Schedule 1-A Additional Deductions, designed to be attached to Form 1040, 1040-SR, or 1040-NR, would cover four specific provisions passed in the budget reconciliation law: No Tax on Tips, No Tax on Overtime, No Tax on Car Loan Interest, and the Enhanced Deduction for Seniors.

The draft form can be found on the IRS website, as can directions on how to submit comments regarding the draft form.

A draft of the instructions that would accompany the form has not yet been posted.

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## Proposed Regulations Issued on “No Tax on Tips” Deduction and “Qualified Tips”

*Proposed Regulations, NPRM REG-110032-25; IR-2025-92*

The Treasury Department and the IRS have proposed regulations that identify occupations that customarily and regularly receive tips, and define “qualified tips” that eligible tip recipients may claim for the “no tax on tips” deduction under Code Sec. 224. This deduction was enacted as part of the the One Big Beautiful Bill Act (OBBBA) (P.L. 119-21).

### Background

Under Code Sec. 224, an eligible individual can claim an income tax deduction for qualified tips received in tax years 2025 through 2028. The deduction is limited to \$25,000 per tax year, and starts to phase out when modified adjusted gross income is above \$150,000 (\$300,000 for joint filers).

An employer must report qualified tips on an employee’s Form W-2, or the employee must report the tips on Form 4137. A service recipient must report qualified tips on an information return furnished to a nonemployee payee (Form 1099-NEC, Form 1099-MISC, Form 1099-K).

If an individual tip recipient is “married” (under Code Sec. 7703), the deduction applies only if the individual and his or her spouse file a joint return. The deduction is not allowed unless the taxpayer includes his or her social security number (SSN) on their income tax return for the tax year. For this purpose, an SSN is valid only if it is issued to a U.S. citizen or a person authorized to work in the United States and before the due date of the taxpayer’s return.

## What is a Qualified Tip?

A “qualified tip” is a cash tip received in an occupation that customarily and regularly received tips on or before December 31, 2024. An amount is *not* a qualified tip unless: (1) the amount received is paid voluntarily without any consequence for nonpayment, is not the subject of negotiation, and is determined by the payor; (2) the trade or business in which the individual receives the amount is not a specified service trade or business under Code Sec. 199A(d)(2); and (3) other requirements established in regulations or other guidance are satisfied.

The proposed regulations define qualified tips—and payments that are *not* qualified tips—based on several factors, including the following:

- Qualified tips must be paid in cash or an equivalent medium, such as check, credit card, debit card, gift card, tangible or intangible tokens that are readily exchangeable for a fixed amount in cash, or another form of electronic settlement or mobile payment application that is denominated in cash.
- Qualified tips *do not* include items paid in any medium other than cash, such as event tickets, meals, services, or other assets that are not exchangeable for a fixed amount in cash (such as most digital assets).
- Qualified tips must be received from customers. For employees, qualified tips can be received through a mandatory or voluntary tip-sharing arrangement, such as a tip pool.
- Qualified tips must be paid voluntarily by the customer and not be subject to negotiation.
- Qualified tips *do not* include some service charges. For example, if a restaurant imposes an automatic 18-percent service charge for large parties and distributes that amount to waiters, bussers and kitchen staff, the amounts distributed are

not qualified tips if the charge is added with no option for the customer to disregard or modify it.

- Qualified tips *do not* include amounts received for an illegal activity (a service the performance of which is a felony or misdemeanor under applicable law), prostitution services, or pornographic activity.
- Qualified tips *do not* include tips received by an employee or other service provider who has an ownership interest in or is employed by the tip payor.
- The proposed regulations also include examples that illustrate some of the requirements and restrictions.

## Occupations That Customarily and Regularly Receive Tips

The proposed regulations list the occupations that customarily and regularly received tips on or before December 31, 2024. For each occupation, the list provides a numeric Treasury Tipped Occupation Code (TTOC), an occupation title, a description of the types of services performed in the occupation, illustrative examples of specific occupations, and the related Standard Occupation Classification (SOC) system code(s) published by the Office of Management and Budget (OMB).

The list groups the eligible occupations into eight categories:

- *Beverage and Food Service*—includes bartenders; wait staff; food servers outside of a restaurant; dining room and cafeteria attendants and bartender helpers; chefs and cooks; food preparation workers; fast food and counter workers; dishwashers; restaurant, lounge, and coffee shop host staff; bakers
- *Entertainment and Events*—includes gambling dealers; gambling change persons and booth cashiers; gambling cage

workers; gambling and sports book writers and runners; dancers; musicians and singers; disc jockeys (but not radio disc jockeys); entertainers and performers; digital content creators; ushers, lobby attendants, and ticket takers; locker room, coatroom, and dressing room attendants

- *Hospitality and Guest Services*—includes baggage porters and bellhops; concierges; hotel, motel, and resort desk clerks; maids and housekeeping cleaners
- *Home Services*—includes home maintenance and repair workers; home landscaping and groundskeeping workers; home electricians; home plumbers; home heating and air conditioning mechanics and installers; home appliance installers and repairers; home cleaning service workers; locksmiths; roadside assistance workers
- *Personal Services*—includes personal care and service workers; private event planners; private event and portrait photographers; private event videographers; event officiants; pet caretakers; tutors; nannies and babysitters
- *Personal Appearance and Wellness*—includes skincare specialists; massage therapists; barbers, hairdressers, hairstylists, and cosmetologists; shampooers; manicurists and pedicurists; eyebrow threading and waxing technicians; makeup artists; exercise trainers and group fitness instructors; tattoo artists and piercers; tailors; shoe and leather workers and repairers
- *Recreation and Instruction*—includes golf caddies; self-enrichment teachers; recreational and tour pilots; tour guides; travel guides; sports and recreation instructors
- *Transportation and Delivery*—includes parking and valet attendants; taxi and rideshare drivers and chauffeurs; shuttle drivers; goods delivery people; personal vehicle and equipment cleaners; private and charter bus drivers; water taxi

### REFERENCE KEY

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

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operators and charter boat workers; rickshaw, pedicab, and carriage drivers; home movers

## Applicability Dates

The proposed regulations apply for tax years beginning after December 31, 2024. Taxpayers may rely on the proposed regulations for those tax years, and on or before the date the final regulations are published in the Federal Register, but only if the proposed regulations are followed in their entirety and in a consistent manner.

## Request for Comments, Public Hearing

Written or electronic comments must be received by October 22, 2025 (30 days after the proposed regulations are published in the Federal Register). Comments may be submitted electronically via the Federal eRulemaking Portal (<https://www.regulations.gov>), or on paper submitted to: CC:PA:01:PR (REG-110032-25), Room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.

A public hearing is being held on October 23, 2025, at 10:00 a.m. Eastern Time (ET). Requests to speak and outlines of topics to be discussed at the public hearing must be received by October 22, 2025; if no outlines are received by that date, the public hearing will be cancelled. Requests to attend the public hearing must be received by 5:00 p.m. ET on October 21, 2023.

# IRS Issues Final Regulations Amending Catch-up Contribution Rules

*T.D. 10033; IR-2025-91*

The IRS issued final regulations implementing the Roth catch-up contribution requirement and other statutory changes to catch-up contributions made by the SECURE 2.0 Act of 2022 (P.L. 117-328). The regulations affect qualified retirement

plans that allow catch-up contributions (including 401(k) plans, 403(b) plans, governmental plans, SEPs and SIMPLE plans) and their participants. The regulations generally apply for contributions in tax years beginning after December 31, 2026, with extensions for collectively bargained, multiemployer, and governmental

plans. However, plans may elect to apply the final rules in earlier tax years.

The SECURE 2.0 Act amended the catch-up contribution provision to allow an increased contribution limit for participants aged 60 through 63 and an increased contribution limit for certain SIMPLE plans. The final regulations

## Current Plan Liability Rates Set for September 2025

For pension plan years beginning in September 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 September 2025 (without adjustment for the 25-year average segment rate limits) are as follows:

- 4.81 for the first segment rate,
- 5.35 for the second, and
- 5.69 for the third.

### September 2025 Adjusted Segment Rate

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

- 4.81 for the first segment rate,
- 5.35 for the second, and
- 5.69 for the third.

The rates for plan years beginning in 2025 are:

- 4.81 for the first segment rate,
- 5.31 for the second, and
- 5.69 for the third.

### 30-Year Treasury Weighted Average

For plan years beginning in September 2025, the 30-year Treasury weighted average securities rate is 4.22, with a permissible range of 3.80 to 4.43 under Code Sec. 431(c)(6)(E)(ii)(I).

The rate of interest on 30-year Treasury securities for August 2025 is 4.87 percent.

### Minimum Present Value Segment Rates

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

- 4.20 for the first segment rate,
- 5.29 for the second, and
- 6.08 for the third.

*Notice 2025-47*

provide that SIMPLE plans may allow participant to take advantage of one of these increased contribution limits, but not both. However, beginning with the 2025 calendar year, a SIMPLE plan that provides for increased contribution limits for all participants may instead permit participants attaining age 60 to 63 to contribute the full amount allowed for that age group.

With respect to mandatory Roth catch-up contributions for participants whose income exceeds a statutory threshold, the final regulations allow 401(k) and 403(b) plans to automatically treat catch-up contributions as Roth contributions for affected participants, provided an opt-out opportunity is offered. The final regulations do not include a rule allowing deemed Roth elections for all employees' catch-up contributions, only for those employees whose income exceeds the threshold. In response to comments,

the final regulations provide that deemed elections must cease within a reasonable period of time following the date on which the employee no longer meets the mandatory Roth threshold or an amended Form W-2 is filed or furnished to the employee indicating that the employee no longer meets the mandatory Roth threshold. As a result, Roth catch-up contributions made pursuant to the deemed election before the end of the reasonable period of time need not be recharacterized as pre-tax catch-up contributions. The IRS further indicated that the plan must be amended to implement deemed Roth elections, and that the deadline for adopting amendments implementing the SECURE 2.0 Act is generally December 31, 2026.

The final regulations provide two correction methods to address pre-tax contributions that should have been designated Roth. First, a plan may transfer pre-tax contributions to the participant's Roth

account and report the contribution as an elective deferral that is a designated Roth contribution on the participant's Form W-2. This correction method is available only if the participant's Form W-2 for that year has not yet been filed or furnished to the participant. Alternatively, the plan can directly roll over the elective deferrals that would be catch-up contributions if they had been designated Roth contributions (adjusted for earnings and losses) from the participant's pre-tax account to the participant's designated Roth account and report the rollover on Form 1099-R. Failures do not need to be corrected if the amount of the pre-tax elective deferral that was required to be a designated Roth contribution does not exceed \$250, or if the participant was incorrectly treated as subject to the Roth catch-up contribution requirement due to a Form W-2 that is later amended.

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## IRS Highlights Retirement Benefits of IRAs

*Tax Tip 2025-62*

The IRS has reminded taxpayers that Individual Retirement Accounts (IRAs) continue to provide important benefits for those planning their financial future. A traditional IRA allows earnings to grow tax deferred, and in many cases, individuals may be able to claim a deduction for their contributions on a federal income tax

return. Additionally, Roth IRAs provide the benefit of tax-free qualified withdrawals, giving savers another powerful tool for retirement planning. By extending these opportunities, the IRS encourages individuals to take proactive steps toward long-term financial security.

Further, taxpayers should be mindful of withdrawal rules. Early withdrawals may result in penalties unless an exception

applies, and minimum distributions are generally required once individuals reach retirement age. Roth IRAs, however, do not require withdrawals until after the owner's death. Thus, whether saving through a traditional IRA, Roth, or other available options, individuals can strengthen their retirement foundations and build lasting financial stability.

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## Nonparticipating Partners Denied Late Entry in TEFRA Easement Case

*Blomquist Holdings, LLC, 165 TC No. 6, Dec. 62,715*

A TEFRA partnership that donated a conservation easement and claimed a large charitable contribution deduction was barred from having nonparticipating partners intervene at the last stage of Tax Court litigation. The bar was imposed because the partners failed to make the substantial showing required under Tax Court Rule 248(b)(4)

to justify its late participation. The IRS had disallowed nearly all of the claimed deduction for the tax year at issue and imposed a 40-percent gross valuation misstatement penalty, along with other accuracy-related penalties. In response, the tax matters partner filed a timely petition in the Tax Court challenging the determinations.

After negotiations, the tax matters partner entered into a settlement agreement under Tax Court Rule 248(b). The

settlement reduced the penalties to 10 percent, allowed certain other deductions, and avoided application of the Code Sec. 67 adjusted gross income floor. The IRS then filed a Motion for Entry of Decision. In opposition, thirty-nine minority interest partners filed motions for leave to participate, claiming an absolute right under Code Sec. 6226(c)(2), alleging conflicts of interest, and asserting readiness to litigate valuation issues.

The Court rejected these arguments, holding that participation rights are conditioned by procedural rules. Nonparticipating partners at the settlement stage must demonstrate a substantial basis for their entry. The objecting partners failed to show that the settlement was unreasonable or that the tax matters partner had breached fiduciary duties. Because their claims were speculative and their objections untimely, the motions were denied. The Court entered decision consistent with the negotiated settlement.

# Wisconsin Victims of Storms, Flooding, and Mudslides Granted Tax Relief

Wisconsin Disaster Relief Notice  
(WI-2025-04)

The president has declared a federal disaster area in the state of Wisconsin. The disaster is due to severe storms, straight-line winds, flooding, and mudslides that began on August 9, 2025. The disaster area includes the following counties:

- Milwaukee,
- Washington, and
- Waukesha.

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

## Wisconsin Filing Deadlines Extended

The IRS extended certain deadlines falling on or after August 9, 2025, and on or before February 2, 2026, to February 2, 2026. This extension includes filing for most returns, including:

- individual, corporate, estate, and trust income tax returns;
- partnership and S corporation income tax returns;

## AFRs Issued for October 2025

Rev. Rul. 2025-19

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

### Applicable Federal Rates (AFR) for October 2025

Short-Term	Annual	Semiannual	Quarterly	Monthly
AFR	3.81%	3.77%	3.75%	3.74%
110% AFR	4.19%	4.15%	4.13%	4.11%
120% AFR	4.57%	4.52%	4.49%	4.48%
130% AFR	4.96%	4.90%	4.87%	4.85%
Mid-Term				
AFR	3.87%	3.83%	3.81%	3.80%
110% AFR	4.25%	4.21%	4.19%	4.17%
120% AFR	4.65%	4.60%	4.57%	4.56%
130% AFR	5.04%	4.98%	4.95%	4.93%
150% AFR	5.83%	5.75%	5.71%	5.68%
175% AFR	6.81%	6.70%	6.64%	6.61%
Long-Term				
AFR	4.73%	4.68%	4.65%	4.64%
110% AFR	5.22%	5.15%	5.12%	5.10%
120% AFR	5.70%	5.62%	5.58%	5.56%
130% AFR	6.17%	6.08%	6.03%	6.00%

### Adjusted AFRs for October 2025

	Annual	Semiannual	Quarterly	Monthly
Short-term adjusted AFR	2.88%	2.86%	2.85%	2.84%
Mid-term adjusted AFR	2.93%	2.91%	2.90%	2.89%
Long-term adjusted AFR	3.58%	3.55%	3.53%	3.52%

The Code Sec. 382 adjusted federal long-term rate is 3.58%; 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 3.65%; the Code Sec. 42(b)(1) appropriate percentages for the 70% and 30% present value low-income housing credit are 8.00% and 3.43%, respectively, although, 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 4.6%.

- estate, gift, and generation-skipping transfer tax returns;
- the Form 5500 series returns;
- annual information returns of tax-exempt organizations; and
- employment and certain excise tax returns.

However, the extension does not include information returns in the Form W-2, 1094, 1095, 1097, 1098, or 1099 series or Forms 1042-S, 3921, 3922, or 8027.

## Wisconsin Payment Deadlines Extended

Also, the relief includes extra time to make tax payments, including estimated tax payments due on September 15, 2025, and January 15, 2026. Further, taxpayers have until February 2, 2026, to perform other time-sensitive actions due on or after August 9, 2025, and on or before February 2, 2026.

The IRS excused late penalties for employment and excise tax deposits due on or after August 9, 2025, and before August 25, 2025. However, the taxpayer must make the deposits by August 25, 2025.

## Casualty Losses

Affected taxpayers can claim disaster-related casualty losses on their federal

income tax returns. Taxpayers may get relief by claiming their losses on their 2024 or 2025 returns. Individuals may deduct personal property losses not covered by insurance or other reimbursements.

A taxpayer claiming a disaster loss on their 2024 or 2025 return should write the assigned FEMA declaration number: “**FEMA-4892-DR**” at the top of the return. This will allow the IRS to speed refund processing.

Also, the IRS will provide affected taxpayers with copies of prior year returns without charge. To get this expedited service, taxpayers should:

- add the disaster designation at the top of Form 4506, Request for a Copy of Tax Return, or Form 4506-T, Request for Transcript of Tax Return; and
- submit it to the IRS.

# FinCEN Proposed Regulations Delay Investment Adviser Rules Until 2028

*FinCEN Proposed Rules RIN-1506-AB58 and 1506-AB69*

The Financial Crimes Enforcement Network (FinCEN) has proposed regulations that would amend the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Program and Suspicious Activity Report (SAR) Filing Requirements for registered investment advisers (IA AML Rule) by delaying the obligations of covered investment advisers from January 1, 2026, to January 1, 2028. The proposed regulation follows an exemptive relief order issued earlier this summer (FinCEN Exemptive Relief Order, August 5, 2025).

The IA AML Rule requires covered investment advisers to establish AML/

CFT programs, report suspicious activity, and keep relevant records, among other requirements.

By delaying the effective date, FinCEN states that it will have an opportunity to review the IA AML Rule, and ensure that the rule is effectively tailored to the diverse business models and risk profiles of firms in the investment adviser sector. According to FinCEN, the review may also provide an opportunity to reduce any unnecessary or duplicative regulatory burden, and ensure that the IA AML Rule strikes an appropriate balance between cost and benefit while still adequately protecting the U.S. financial system and guarding against money laundering, terrorist financing, and other illicit finance risks.

## Request for Comments

FinCEN invites interested parties to submit comments on the proposed delay in the effective date of the IA AML Rule. Written or electronic comments must be received by October 22, 2025 (30 days after the proposed regulations are published in the Federal Register). Comments may be submitted electronically via the Federal eRulemaking Portal (<https://www.regulations.gov>), or by mail to: Policy Division, Financial Crimes Enforcement Network, P.O. Box 39, Vienna, VA 22183. Refer to Docket Number FINCEN-2025-0072 and RIN 1506-AB58 and 1506-AB69.

## TAX BRIEFS

### Collections

The Court of Federal Claims could not pass judgment on whether an individual taxpayer was a “responsible person” under Code Sec. 6672. The taxpayer did not respond to the government’s willfulness argument in his responsive briefing or at oral argument. This failure constituted a waiver under Code Sec. 6672. The taxpayer’s tax refund claim was untimely under Code Sec. 6511(a).

*Richter, FedCl, 2025-2 USTC ¶150,241*

### Exempt Organizations

Seventeen organizations were denied tax-exempt status for not operating exclusively for exempt purposes under Code Sec. 501. In the first, fourth, sixth, seventh, eighth, ninth, and seventeenth cases, the organizations were operated to benefit the private interests of members. In the second case, the organization was operated to provide particular services for individual persons rather than the improvement of business conditions of one or more lines of business.

In the third case, the organization derived a substantial part of its income from nonmember use of the facilities. In the fifth, tenth, twelfth, fourteenth, and sixteenth cases, the organizations’ activities furthered substantial nonexempt purposes. In the eleventh case, the organization operated to provide training to dogs. In the thirteenth case, the organization’s articles of incorporation lacked a proper purpose and served private benefit. In the fifteenth case, the

organization's activities were not primarily directed to the improvement of business conditions of one or more lines of business. However, in all the cases, the organizations were denied tax-exempt status under Code Sec. 501(c)(3) because they did not meet either the operational

or organizational test and did not serve a clear exempt purpose.

[IRS Letter Ruling 202538026](#); [IRS Letter Ruling 202538027](#); [IRS Letter Ruling 202538028](#); [IRS Letter Ruling 202538029](#); [IRS Letter Ruling 202538030](#); [IRS Letter Ruling 202538031](#); [IRS Letter Ruling 202538032](#); [IRS Letter Ruling](#)

[202538033](#); [IRS Letter Ruling 202538034](#); [IRS Letter Ruling 202538035](#); [IRS Letter Ruling 202538036](#); [IRS Letter Ruling 202538037](#); [IRS Letter Ruling 202538038](#); [IRS Letter Ruling 202538039](#); [IRS Letter Ruling 202538040](#); [IRS Letter Ruling 202538041](#); [IRS Letter Ruling 202538042](#)