



FEDERAL TAX WEEKLY

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IRS Phasing Out Paper Tax Refund Checks

IR-2025-94

The IRS has announced is phasing out paper tax refund checks for individual taxpayers as directed by Executive Order 1424. The phase out was to start on September 30, 2025. The IRS noted that paper refund checks are over 16 times more likely to be lost, stolen, or delayed compared to direct deposits. In addition, taxpayers who file electronically and opt for direct deposit often receive their refunds in less than 21 days, while mailed checks can take six weeks or longer. Filing processes will remain unchanged.

Refunds will primarily be delivered through direct deposit or other secure digital methods. For individuals without access to a bank account, the IRS will provide alternatives such as prepaid debit cards, digital wallets, or limited exceptions. Taxpayers are encouraged to prepare early by updating their banking details or considering low-cost account options available through resources like FDIC: GetBanked and MyCreditUnion.gov. Additional guidance on the transition will be shared before the 2026 tax filing season begins.

Tax Professionals Advised To Prepare for New Form 1099-DA

FS-2025-6

The new version of Form 1099-DA, which brokers use to furnish statements, will be sent to taxpayers in early 2026. This form includes proceeds from certain digital asset transactions. The IRS is advising tax professions that there are specific steps that they can take now to prepare their clients.

The new Form 1099-DA is used by brokers to report certain transactions involving digital assets during the calendar year 2025. Brokers are required to provide a statement reflecting the information reported to the IRS on Form 1099-DA to taxpayers by February 17, 2026.

The statements reflecting information reported on Form 1099-DA are different from some other statements taxpayers receive showing information reported on other IRS forms because most of these statements will not provide the basis of the taxpayers' digital asset transaction(s) for the 2025 tax year. Taxpayers must calculate basis before their 2025 tax return can be filed. Detailed recordkeeping is critical for reporting the basis accurately on behalf of taxpayers.

Decentralized Finance (DeFi) brokers and some foreign brokers are not required to file a Form 1099-DA with the IRS or furnish a statement to taxpayers showing their

digital asset transaction(s). Taxpayers should understand their tax obligations whether or not they received a statement showing all taxable digital asset activities.

Tax professionals who use software to assist clients should ensure they're using trusted software and pay close attention to

taxpayer information. It's important that all data used to calculate basis is complete and accurate.

At a minimum, tax professionals should:

- review and reconcile all transactions which may be spread over multiple exchanges, wallets, and accounts;

- apply appropriate cost basis methods and document findings; and

- accurately categorize income events.

For more information, taxpayers can visit the IRS Digital Assets website at <https://www.irs.gov/filing/digital-assets> or review the Instructions for Form 1099-DA.

IRS Identifies Drought-Stricken Areas for Tax Relief After Involuntary Sale of Livestock

Notice 2025-52; IR-2025-93

The IRS identified drought-stricken areas where tax relief is available to taxpayers who sold or exchanged livestock because of drought. The relief extends the deadlines for taxpayers to replace the livestock and avoid reporting gain on the sales. These extensions apply until the drought-stricken area has a drought-free year.

When Sales of Livestock are Involuntary Conversions

Sales of livestock due to drought are involuntary conversions of property. Taxpayers can postpone gain on involuntary conversions if they buy qualified replacement property during the replacement period. Qualified replacement property must be similar or related in service or use to the converted property.

Usually, the replacement period ends two years after the tax year in which the involuntary conversion occurs. However, a

longer replacement period applies in several situations, such as when sales occur in a drought-stricken area.

Livestock Sold Because of Weather

Taxpayers have four years to replace livestock they sold or exchanged solely because of drought, flood, or other weather condition. Three conditions apply.

First, the livestock cannot be raised for slaughter, held for sporting purposes or be poultry.

Second, the taxpayer must have held the converted livestock for:

- draft;
- dairy; or
- breeding.

Third, the weather condition must make the area eligible for federal assistance.

Persistent Drought

The IRS extends the four-year replacement period when a taxpayer sells or exchanges

livestock due to persistent drought. The extension continues until the taxpayer's region experiences a drought-free year.

The first drought-free year is the first 12-month period that:

- ends on August 31 in or after the last year of the four-year replacement period; and
- does not include any weekly period of drought.

Areas Suffering From Drought

The National Drought Mitigation Center produces weekly Drought Monitor maps that report drought-stricken areas. Taxpayers can view these maps at

<https://droughtmonitor.unl.edu/Maps/MapArchive.aspx>.

The IRS has also provided a list of areas where the year ending on August 31, 2025, was not a drought-free year. The replacement period in these areas will continue until the area has a drought-free year.

REFERENCE KEY

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

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Charitable Contribution Deductions No Longer Allowed for Organizations

Announcement 2025-26

The IRS has announced that the following organizations no longer qualify under Code Sec. 170(c)(2) as an organization for which deductions for charitable contributions are allowed.

- National Coalition For Housing Opportunities Inc., of Virginia. Effective revocation date: January 1, 2021.
- ThinkTechAct Foundation, of Minnesota. Effective revocation date: January 1, 2021.
- TM Landry College Prep Foundation, of Louisiana. Effective revocation date: January 1, 2020.

However, contributions made to the organization before September 29, 2025, will generally be deductible, unless made by a person who (1) knew of the revocation, (2) was aware that the revocation was imminent or (3) was responsible, in whole or in part, for the activities or deficiencies that gave rise to the loss of qualification.

If the organization files suit, in a timely manner, for declaratory judgment under Code Sec. 7428, challenging the revocation of its status as an eligible donee of deductible charitable contributions, Code Sec. 170 contributions will continue to be deductible. Protection under Code Sec. 7428(c) would begin on September 11, 2025. The maximum amount of individual contributions protected would be \$1,000,

2025-2026 Special Per Diem Rates Released

The IRS has released the 2025-2026 special per diem rates. Taxpayers use the per diem rates to substantiate certain expenses incurred while traveling away from home. These special per diem rates include:

- the special transportation industry meal and incidental expenses (M&IE) rates;
- the rate for the incidental expenses only deduction; and
- the rates and list of high-cost localities for purposes of the high-low substantiation method.

Transportation Industry Special Per Diem Rates

The special M&IE rates for taxpayers in the transportation industry are:

- \$80 for any locality of travel in the continental United States (CONUS); and
- \$86 for any locality of travel outside the continental United States (OCONUS).

Incidental Expenses Only Rate

The rate is \$5 per day for any CONUS or OCONUS travel for the incidental expenses only deduction.

High-Low Substantiation Method

For purposes of the high-low substantiation method, the 2025-2026 special per diem rates are:

- \$319 for travel to any high-cost locality; and
- \$225 for travel to any other locality within CONUS.

The amount treated as paid for meals is:

- \$86 for travel to any high-cost locality; and
- \$74 for travel to any other locality within CONUS

Instead of the meal and incidental expenses only substantiation method, taxpayers may use:

- \$86 for travel to any high-cost locality; and
- \$74 for travel to any other locality within CONUS.

Taxpayers using the high-low method must comply with Rev. Proc. 2019-48, I.R.B. 2019-51, 1392. That procedure provides the rules for using a per diem rate to substantiate the amount of ordinary and necessary business expenses paid or incurred while traveling away from home.

Notice 2024-68, I.R.B. 2024-41, 729 is superseded.

Notice 2025-54

with a husband and wife treated as one taxpayer. This protection is not afforded to anyone who was responsible, in whole

or in part, for the acts or omissions of the organization that resulted in revocation of qualification.

Presidential Authority To Remove Tax Court Judges Constitutional

S. Battat, CA-11, 2025-2 USTC ¶150,242

The President is constitutionally permitted to remove a Tax Court judge only for

cause, pursuant to the President's authority to remove Executive Branch officials and consistent with the Constitution's separation of powers. A married couple

(taxpayers) failed to demonstrate that they suffered any compensable harm stemming from the asserted unconstitutionality of Code Sec. 7443(f).

The taxpayers moved to disqualify all Tax Court judges and to declare Code Sec. 7443(f) unconstitutional, arguing that the provision permitting the President to remove a Tax Court judge “after notice and opportunity for public hearing, for inefficiency, neglect of duty, or malfeasance in office, but for no other cause” violates the Constitution’s separation of powers. The Tax Court denied the motion, concluding that Code Sec.

7443(f) does not violate separation of powers principles.

The Supreme Court, in *Collins v. Yellen*, 594 U.S. 257, 260 (2021), and the Eleventh Circuit, in *Rodriguez v. Soc. Sec. Admin.*, 118 F.4th 1314, 1315 (11th Cir. 2024), observed that the taxpayers were not entitled to relief because they failed to demonstrate compensable harm resulting from the asserted unconstitutionality of Code Sec. 7443(f).

Finally, the IRS complied with Code Sec. 6751(b)(1), as a supervisor approved the accuracy-related penalties before assessment. The supervisor did not lack discretion to approve the penalties before the assessment and issuance of the notice of deficiency.

Unpublished opinion affirming, per curiam, the Tax Court, Dec. 60,829, 148 T.C. No. 2.

Taxpayers Reminded To Safeguard Financial Records in Emergency Plans

Tax Tip 2025-64

The IRS is reminding taxpayers that emergency readiness has gone beyond food, water, and shelter. It also includes safeguarding financial and tax documents. Families and businesses should review their emergency preparedness plans each year, even after National Preparedness Month ends.

Taxpayers should create digital copies of important documents, store them on secure devices or in the cloud, and keep electronic statements from financial institutions. They should also take photos or video of household valuables in advance to make it easier to claim insurance and tax benefits. Ready.gov has checklists and planning tools to help people build a strong preparedness plan.

The IRS also reminds taxpayers that relief measures are available to those affected by federally declared disasters. Residents in designated areas automatically receive filing and payment extensions and do not need to contact the agency. Publication 547 and the disaster loss workbook offer guidance for recovery. Taxpayers who lose records can request transcripts or copies of past returns through standard IRS channels.

TIGTA Round-up

Here are a selection of reports that the Treasury Inspector General for Tax Administration has released in the recent weeks. A master list of reports can be found at <https://www.tigta.gov/reports/list>.

IRS employees are not consistently following direct contact rules. TIGTA in a September 16, 2025, report revealed that Internal Revenue Service employees “did not consistently follow legal and procedural requirements related to direct taxpayer contact and representation.” The agency watchdog “identified 38 potential violations within 21 of the 75 field investigation cases we sampled for review,” adding that there are an estimated 13,600 cases from July 2023 through June 2024 “where the examiner did not consistently follow procedure to protect the taxpayer’s right to

representation.” Among the potential violations are improper bypass of authorized representatives; not following pre-contact procedures; not following revocation and withdrawal procedures; and not providing notice to taxpayers’ representatives due to inconsistent guidance and procedural lapses.

TIGTA identifies 55 unlawful levies. TIGTA in a September 18, 2025, report “identified 55 unlawful levies that occurred because the IRS did not timely input the required code that prevents a levy from occurring on a taxpayer’s account.” The agency watchdog found that in nearly all the cases, “the Appeals hearing officers did not identify that an unlawful levy occurred and incorrectly verified that all laws and procedures had been complied with for

the proposed action to proceed.” TIGTA noted that a similar concern was raised in September 2024.

IRS cybersecurity program not effective in Fiscal Year 2025. TIGTA in a September 10, 2025, report stated that the IRS’s “Cybersecurity Program was considered not effective because three function areas were not at an acceptable maturity level.” The program areas deemed not effective were the IDENTIFY, PROTECT, and DETECT function areas, while the GOVERN, RESPOND, and RECOVER areas were deemed effective. “If the IRS does not take steps to mitigate these deficiencies, taxpayer data could be vulnerable to inappropriate and undetected use, modification, or disclosure.”

Branch Profits Tax

The IRS ruled on how U.S. income tax treaties apply to the branch profits tax when imposed on reverse foreign hybrids entities treated as fiscally transparent in their home jurisdiction but classified as corporations under U.S. law. While such entities are subject to U.S. corporate income tax and the branch profits tax, treaty relief may still apply at the owner level. An owner who is a resident of a treaty country and meets the 12-month residency requirement and the limitation on benefits (LOB) test as of the close of the hybrid's taxable year may qualify for treaty relief. In that case, a reduced branch profits tax rate can apply to the portion of the dividend equivalent amount (DEA) attributable to that owner

IRS Advice Memorandum AM 2025-002

Conservation Easements

Two partnerships were not entitled to charitable contribution deductions for syndicated conservation easement donations in the tax year at issue. The Tax Court found that the transactions lacked donative intent, failed to meet the requirements of

Code Sec. 170, and were based on inflated valuations triggering penalties under Code Sec. 6662.

Jackson Stone South, LLC, TC, Dec. 62,717(M)

Excess Benefit Transactions

An individual's receipt of legislative and charitable benefits was includible in gross income. The Tax Court found that staff services, contractual arrangements, and organizational resources used for personal purposes represented accessions to wealth under Code Sec. 61.

Fumo, TC, Dec. 62,718(M)

Hobby Loss

A married couple was not entitled to deduct Schedule F losses under Code Sec. 183 because the activity at issue was not engaged in for profit.

Young, TC, Dec. 62,716(M)

Subject Matter Jurisdiction

The district court lacked subject-matter jurisdiction over multiple plaintiffs' claims involving electricity-related fees. The plaintiffs challenged the actions of the

defendants, a private party, not the actions of the IRS. The plaintiffs' Declaratory Judgment Act (DJA) claim did not create an independent basis for federal subject-matter jurisdiction. The plaintiffs did not meet the threshold requirement for declaratory relief.

Sunvestment Energy Group NY 64 LLC, CA-2, 2025-2 ustc ¶150,243

Tax Exempt Organizations

Four organizations were denied tax-exempt status for not operating exclusively for exempt purposes under Code Sec. 501. In the first case, the organization was operated for hosting family reunions and holiday activities. In the second case, the organization's activities furthered substantial non-exempt purposes. In the third case, the organization was operated to benefit the private interests of members. In the fourth case, the organization operated to pay members and operated for profit.

IRS Letter Ruling 202539011; IRS Letter Ruling 202539012; IRS Letter Ruling 202539013; IRS Letter Ruling 202539014