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IRS RATES | MAY 2024

- **Applicable Federal Rateⁱ**

Note Term	Annual Rate	Prior Month Δ
Short-Term (< 3 Years)	4.97%	Δ +0.08%
Mid-Term (3 - 9 Years)	4.42%	Δ +0.12%
Long-Term (> 9 Years)	4.55%	Δ +0.10%

Applicable Federal Rate ("AFR") is the lowest interest rate allowed by the IRS without having a loan be deemed a gift. The purpose of this restriction is to prevent gifts being disguised as loans (i.e., parents "loan" kids \$1MM at 0.00% rate). When AFR rates are low, there are a lot of creative ways to manage liquidity, capitalize trusts, and handle interfamily finances using Promissory Notes. When rates are high, estate vehicles like Charitable Remainder Annuity Trusts ("CRATs") become more attractive as the up-front charitable deduction is larger.

- **§7520 Rate**

5.40%	Δ +0.20%
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The §7520 Rate is related to the valuation of long-term or future interests. It's most commonly utilized with GRATs, annuities, and estates. The rate is based off the Mid-Term AFR rate (120%, rounded to the nearest two-tenths).

LEGISLATIONS, GUIDANCE, & JUDICIAL CASES

IRS OFFERS RELIEF FOR RULE CONFUSION VIA PENALTY WAIVE... AGAINⁱⁱ

The IRS issued Notice 2024-35 to address ongoing confusion caused by their guidance on the SECURE Act's "10-Year Rule".

- Following the SECURE Act, most non-spousal beneficiaries of inherited IRAs became subject to the "10-Year Rule" starting in 2020. Per the rule, beneficiaries have 10 years to empty out the account, eliminating the concept of "stretch IRAs". It was widely thought that distributions could be taken during the 10-year period, but it was not mandatory.
- In February 2022, the IRS issued subsequent guidance saying that if the deceased IRA owner died after the RMD beginning date, then the beneficiary would have to take annual RMDs throughout the 10-year period.
 - Notably, Inherited Roth IRAs are also subject to the 10-Year Rule but no distributions are required before the final non-taxable transfer.
- The IRS' guidance caused a lot of confusion within the tax world as accountants in many cases had not been advising clients to continue the deceased owner's RMDs. This caused a lot of backlash and frustration with the IRS.
- As a concession, the IRS issued a notice in November 2022 that waived any penalties that would have been assessed if distributions weren't taken in 2021 or 2022.

This April, the IRS once again issued a notice waiving penalties for applicable RMDs not taken in 2023. Of note, the final 10-year deadline does not also get delayed with each notice.

SECTION END

PRESIDENT BIDEN'S NEW HOMEOWNER TAX CREDIT EXPLAINEDⁱⁱⁱ

Last month, the Biden administration presented a list of campaign proposals via a 2025 fiscal year budget plan. One item which caught headlines was assistance for new homeowners through tax credits. This comes at a time when housing affordability is nearing an all-time low and home prices have surged approximately 27% since the beginning of the pandemic.

As part of the proposal, there would be two new tax credits.

- **Home Buyer Credit.** A new refundable credit of up to \$10K would be created for buyers who haven't owned a home in the prior three years. Half of the credit, which begins to phase out after \$100K of adjusted gross income, would be claimed on the buyer's return for the year of purchase, with the balance on the following year's return.

Of note, this proposal is catching headlines partly because it's not a new idea. A home buyer credit was previously in place from 2008 through 2010.

- **Home Seller Credit.** A new refundable credit of up to \$10K would be created for homeowners who sell their starter homes. The intention of the credit, which also begins to phase out after \$100K of adjusted gross income, is to provide relief for homeowners who feel unable to sell their home if they're currently locked into low mortgage rates. Notably, the credit will also begin to phase out if the sales price exceeds 80% of the median home value in the country.

The buyer credit is projected to help 3.5 MM middle-class families, with the seller credit helping an additional 3 MM American families.

SECTION END

OTHER HEADLINES

DOMESTIC HEADLINES

- **Senate Wrestles Over House-Passed Tax Bill^v.** The House-passed \$78 B tax bill, which includes improved child tax credit provisions and expanded business tax breaks, continues to have an uncertain future in the Senate. Senate GOP leaders have expressed concerns on the costs of the child tax credit increases, making the proposal's passage difficult. With that said, Senate Majority Leader Schumer (D-NY) announced he is negotiating with leaders across the aisle. Should negotiations stall, some believe he may bring the bill to a floor vote, forcing GOP Senators to potentially vote against a measure packed with business-friendly tax breaks.
- **California Explores Digital Advertising Tax^v.** The California State Assembly is discussing a proposal that would adopt a digital advertising tax that would be applied to advertising revenues. The bill is restricted to corporations with over \$100 MM in revenues. Of note, Maryland was the first state to attempt a digital advertising tax. However, the tax has been struck down and subsequently appealed multiple times in the state court system, and currently under consideration by the Maryland Tax Court.
- **Colorado May Redirect Budget Surplus to Child Tax Credits^{vi}.** A bill moved through the state's House chamber that would re-establish a refundable *Family Affordability Tax Credit* which was offered by Colorado in 2022. The credit would offer up to \$3,400 per child under 6, and up to \$2,400 per child between 6 and 16. The credit has a phase-out starting at \$15K and \$25K for single and joint filers, respectively. The bill would cost the state \$700 MM and be funded with their budget surplus. In the absence of the bill, the surplus would be refunded in a tiered system back to state residents.
- **Maine Lawmakers Support Tax Bracket Adjustment^{vii}.** Both chambers of the state legislature approved a bill that would reduce income taxes for low- and middle-wage workers, while increasing taxes on those earning more than \$500K annually. The bill still requires a final vote in the state Senate, along with a final approval from Governor Janet Mills. Notably, the Governor has not made it clear where she falls on the measure.
- **Pennsylvania To Consider Organ Donor Deduction^{viii}.** The state's House Committee on Finance are considering a bill that would allow taxpayers to deduct up to \$12K of their state income. The amount, which is a lifetime limit, would be based off any unreimbursed expenses if the taxpayer or dependent donates an organ. Qualifying expenses include travel, lodging, lost wages, and medical costs.
- **Tennessee Lawmakers Sorting Out \$1 B Refund Plan^{ix}.** Tennessee's House and Senate chambers each passed a different version of a bill that would address a franchise tax refund to businesses. The former's bill allows businesses to get a one-year refund of the franchise tax, but the state would publish a publicly available list of which corporations benefited from the refund. The Senate's version includes a three-year look-back for refunds, and there would be no public record of the activity. Both are backed by Governor Bill Lee as there is a current lawsuit claiming the tax violates the Constitution's Commerce Clause.

- **Vermont Governor Pushes For Controversial Property Tax Relief^x.** Governor Phil Scott is pushing for the state legislature to vote on his plan for statewide property tax relief. Controversially, the revenue loss to school districts would be made up by borrowing from the state reserves and providing loans to schools. Critics, including the state Treasurer, oppose the bill as the plan could hurt the state's credit rating.

INTERNATIONAL HEADLINES

- **Panama Papers Trial Finally Begins^{xi}.** Eight years after the *International Consortium of Investigative Journalists* discovered mass tax evasion schemes in Panama, the Panamanian criminal court will begin a trial against 27 people for money laundering charges. Jurgen Mossack & Ramon Fonseca Mora, the founders of the now-defunct law firm, will be at the center of the case. As a reminder, in 2016 a group of journalists leaked 11.5 million files from law firm Mossack Fonesca which exposed many high profile figures in a tax evasion scheme. Included in the documents were Icelandic Prime Minister Sigmundur David Gunnlaugsson (who was forced to resign), Pakistani Prime Minister Nawaz Sharif (disqualified from ever holding political office again), former British Premier David Cameron, Argentinian President Mauricio Macri, and Lionel Messi.
- **Portuguese Authorities Raid Uber and Other Offices^{xii}.** Portuguese authorities raided the offices of 65 firms that carry out food deliveries through digital platforms. Notably, Uber was among those raided, although they released a statement saying that they are not the target of an investigation and cooperating with authorities. The raids come after a public prosecutor began probing a €28 MM tax fraud scheme where delivery companies used false invoices.

SECTION END

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ⁱ <https://www.irs.gov/pub/irs-drop/rr-24-09.pdf>

ⁱⁱ <https://www.irs.gov/pub/irs-drop/n-24-35.pdf>

ⁱⁱⁱ <https://www.cbsnews.com/news/biden-state-of-the-union-home-buyer-tax-credit-10000-heres-who-qualifies/>

^{iv} https://www.bloomberg.com/news/articles/2024-04-04/business-child-tax-breaks-hit-republican-roadblock-in-us-senate?accessToken=eyJhbGciOiJIUzI1NiIsInR5cCI6IkpXVCJ9.eyJzb3VyY2UiOiJ0dWJzY3pYmVvYyR2ImdGVkQXJ0aWNsZSIsImhhdCI6MTcxMjM0MDU3OSwiZXhwIjoxNzEyOTQ1Mzc5LjJhcnR5Y2xISWQioiJ0kZLUkREV0xVjgwMCI6ImJib25uZWNO5WQioiI3MTQxMTYzMTc0NjE0OTZDOUg3MDVDNDJEOUqWnkNDOSJ9.u4ZcPr9vUJfukt7g_Hk3V9xPBA7jdryUjRiu2RFnCs&utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC

^v https://digitaldemocracy.calmatters.org/bills/ca_202320240ab2829?utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC

^{vi} https://www.cpr.org/2024/04/10/colorado-could-use-700-million-of-surplus-on-new-child-tax-credit/?utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC

^{vii} https://www.pressherald.com/2024/04/12/maine-lawmakers-endorse-higher-tax-brackets-for-wealthier-residents/?utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC

^{viii} https://www.taxnotes.com/tax-notes-today-state/tax-preference-items-and-incentives/pennsylvania-bill-would-create-income-tax-deduction-organ-donations/2024/04/12/7jdzk?utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC

^{ix} https://www.tennessean.com/story/news/politics/2024/04/09/tennessee-house-passes-massive-franchise-tax-refund-at-odds-with-senate/73254417007/?utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC

^x https://www.wcax.com/2024/04/17/gov-scott-urges-lawmakers-push-ahead-with-his-property-tax-relief-borrowing-plan/?utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC

^{xi} https://www.france24.com/en/live-news/20240408-panama-papers-trial-to-begin-eight-years-after-tax-scandal?utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC

^{xii} https://www.bloomberg.com/news/articles/2024-04-16/uber-raided-in-tax-probe-of-its-portuguese-delivery-partners?accessToken=eyJhbGciOiJIUzI1NiIsInR5cCI6IkpXVCJ9.eyJzb3VyY2UiOiJ0dWJzY3pYmVvYyR2ImdGVkQXJ0aWNsZSIsImhhdCI6MTcxMzI5NDQwMywiZXhwIjoxNzEyODk5MjAzLjJhcnR5Y2xISWQioiJ0kZLUkREV0xVjgwMCI6ImJib25uZWNO5WQioiI3MTQxMTYzMTc0NjE0OTZDOUg3MDVDNDJEOUqWnkNDOSJ9.i3yubWKOIXjzP3zy96c9H75ivk3dRlys4toDlihy9o&utm_source=%20urban_newsletters&utm_medium=news-DD&utm_term=TPC