What We're Watching

December 2024

ANCHOR CAPITAL ADVISORS LLC

TABLE OF CONTENTS

IRS RATES | DECEMBER 2024

- ***Applicable Federal Rate***[i]

Note Term	Annual Rate	Prior Quarter Δ
Short-Term (< 3 Years)	3.26%	Δ -0.95%
Mid-Term (3 - 9 Years)	3.16%	Δ -0.54%
Long-Term (> 9 Years)	3.43%	Δ -0.67%

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***

5.00%	Δ +0.60%

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

FOUR THINGS TO WATCH FOR IN THE CORPORATE TAX DEBATES[ii]

With President Trump's reelection and Republican control of both the Senate and House of Representatives, tax policy will be back in the news. A top priority for Republicans will be extending the individual income tax and estate tax provisions of the 2017 Tax Cuts and Jobs Act (TCJA), almost all of which expire at the end of 2025.

TARIFFS, TRADE, CHINA, AND THE STATES [iii]

Although tariffs currently constitute a very small share of US federal revenue, both President Donald Trump and President Joe Biden increased their use, and Trump now proposes significantly expanding their application. After an overview of current US imports and tariff policies, this chartbook presents state-by-state calculations of imports as a share of state gross domestic product (GDP), current tariff payments as a share of state GDP, and Trump's proposed tariffs as a share of state GDP.

Trump's proposal would increase tariff payments as a share of state GDP, on average, by 1.5 percentage points across the 50 states and the District of Columbia. The largest increases would occur in Kentucky (4.1 points), Indiana (3.9 points), Tennessee (3.6 points), Mississippi (3.5 points), and Michigan (2.8 points).

NATIONAL TAX SECURITY AWARENESS WEEK 2024.[iv]

The IRS, state tax agencies and the nation's tax industry are partnering again for the 9th annual National Tax Security Awareness Week, running from December 2-6, 2024. This annual event emphasizes the importance of protecting sensitive financial information from identity theft and tax scams, especially as the holidays and the 2025 tax season approach.

Organized by the Security Summit – a coalition of IRS, state tax agencies, tax software providers, tax professionals and others in the tax community – this week offers educational materials and resources available 24/7 on IRS.gov to help taxpayers and tax professionals safeguard personal and financial data.

SECTION END

OTHER HEADLINES

DOMESTIC HEADLINES

- **Will A Pre-Trump Buying Frenzy Kick Off A New Round Of Inflation?**[v] Trump has promised to lower consumer prices, but two ideas he raises often, mass deportations of immigrants and broad-based tariffs, could result in rapid price increases for many goods. And there already is anecdotal evidence that both consumers and businesses are preparing for the possibility by boosting spending months before Trump's second term even starts.

- **Federal tax credits drive EV sales, but their future is uncertain.**[vi] Tax credits of up to $7,500 have been a decisive factor for most electric vehicle (EV) buyers in 2024, according to a J.D. Power study. Eighty-seven percent of EV buyers benefited from the credit, with nearly two-thirds of luxury EV owners and about half of mainstream EV buyers saying the incentive played a major role in their decision. President-elect Donald Trump has signaled a desire to end the credit to raise revenue for other fiscal priorities.

- **State revenue growth remains weak amid economic uncertainty.**[vii] After two years of robust pandemic-driven revenue growth, state revenue growth slowed significantly in fiscal years 2023 and 2024, says TPC's Lucy Dadayan in the latest State Tax and Economic Review. While many states have cut taxes, temporary boosts from federal aid and strong market performance have faded, leaving states with weaker-than-expected collections. Economic uncertainty and the unclear future of the TCJA could complicate forecasting efforts in the short term.

- **Who has capital gains?**[viii] When you sell or exchange an asset like stocks or real estate at a price higher than what you paid, you pay tax on your profit, or capital gain. Right now, capital gains face no tax until they are realized, or sold.

- **Biden Pardon Threatens His Legacy—and Democrats' Fight Against Trump.**[ix] Joe Biden made the central purpose of his presidency clear in his Inauguration Day address: "We have learned again that democracy is precious. Democracy is fragile," he said at the U.S. Capitol, where a violent mob had tried that month to overturn his 2020 election victory. Biden's aim would be to unify the nation and shore up its democratic institutions.

  That is one reason why the president's pardon of his son, Hunter Biden, on Sunday may further damage his already tarnished legacy: The reprieve he ordered threatens to undercut one of the main propositions he offered for his election.

SECTION END

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[i] https://www.irs.gov/pub/irs-drop/rr-24-12.pdf

[ii] https://taxpolicycenter.org/taxvox/four-things-watch-corporate-tax-debates

[iii] https://taxpolicycenter.org/sites/default/files/2024-10/tariffs-trade-china-and-the-states-10-30-24.pdf

[iv] https://www.irs.gov/newsroom/national-tax-security-awareness-week-2024

[v] https://taxpolicycenter.org/taxvox/will-pre-trump-buying-frenzy-kick-new-round-inflation

[vi] https://www.kbb.com/car-news/study-ev-tax-credit-influenced-many-2024-buyers/?utm_source=urban_newsletters&utm_medium=news-DD&utm_term=TPC

[vii] https://taxpolicycenter.org/research-reports/state-tax-and-economic-review-2024-quarter-2?&utm_source=urban_newsletters&utm_medium=news-DD&utm_term=TPC

[viii] https://taxpolicycenter.org/fiscal-facts/who-has-capital-gains

[ix] https://www.wsj.com/politics/policy/biden-pardon-threatens-his-legacyand-democrats-fight-against-trump-7a40a140?st=DzmSQv&reflink=article_email_share