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IRS RATES | MARCH 2025

- **Applicable Federal Rateⁱ**

Note Term	Annual Rate	Prior Quarter Δ
Short-Term (< 3 Years)	4.31%	Δ 0.01%
Mid-Term (3 - 9 Years)	4.46%	Δ 0.28%
Long-Term (> 9 Years)	4.82%	Δ 0.29%

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 +0.40%
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The §7520 Rate is related to the valuation of long-term or future interests. It's most used 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

HOUSE PASSES GOP BUDGET PLAN AS HOLDOUTS RELENTⁱⁱ

Republicans squeaked their budget blueprint through the House late Tuesday after party leaders swayed a handful of wavering members to back the framework for President Trump's tax, border and spending-cut agenda.

The 217-215 vote delivered a victory for House Speaker Mike Johnson (R., La.), who united all but one of his GOP members—Thomas Massie of Kentucky—around an approach that requires significantly reducing Medicaid costs and likely won't accommodate all of Trump's desired tax cuts. The House-passed plan calls for \$1.5 trillion to \$2 trillion in spending reductions over a decade and \$4 trillion to \$4.5 trillion in tax cuts. Tuesday's vote is a sign that the Republican-controlled Congress might be able to deliver major legislation despite slim majorities in the House and Senate.

Still, the path ahead isn't straightforward. Tuesday's vote sets up a conflict with the Senate, which favors larger tax cuts and plans to alter the House plan rather than accept it. That means another nail-biting House budget vote is on the horizon.

WHO PAYS TARIFFS? AMERICANS WILL BEAR THE COSTS OF THE NEXT TRADE WARⁱⁱⁱ

President Trump has started his second term in office with announcements of more tariffs on Canada, Mexico, China, steel, aluminum, autos, and countries that tariff certain US exports. When the Trump administration imposed tariffs on various imports in 2018, the stated purpose was to boost US industries and punish foreign exporters. But rather than hurting foreign exporters, the economic evidence shows American firms and consumers were hardest hit by the Trump tariffs.

As the scope of the tariffs continues to increase with the new announcements, the impacts will be felt even more broadly across the economy, and we should expect the results to be no different, and potentially even worse, than they were the last time around.

IRS PROVIDES ADDITIONAL 1099-K RELIEF^{iv}

On Nov. 26, 2024, the IRS issued Notice 2024-85, further postponing the implementation of the \$600 Form 1099-K reporting threshold for third party settlement organizations (TPSOs), providing for two additional phase-in years before asserting penalties. The transitional relief means TPSOs, such as Venmo, Uber, eBay and Etsy, won't be subject to the \$600 threshold until four years after its intended enactment. The thresholds will be \$5,000 and \$2,500 for the 2024 and 2025 calendar years, respectively.

Prior to the American Rescue Plan Act of 2021 (ARPA), TPSOs were only required to issue a Form 1099-K to payees if the total dollar amount of transactions exceeded \$20,000 and the total number of transactions exceeded 200. ARPA included a revenue raising provision that decreased the reporting requirements to a total dollar amount of \$600 and removed the minimum transaction threshold, effective for the 2022 calendar year. This is the third time the IRS has delayed implementation.

SECURE 2.0: IRS ISSUES PROPOSED REGULATIONS RELATED TO CATCH-UP CONTRIBUTIONS^v

Section 109 of SECURE 2.0 permits higher catch-up contribution amounts (super catch-up contributions) for participants who attain age 60, 61, 62, or 63 in the taxable year, starting in 2025. The 2025 IRS limit for super catch-up contributions is \$11,250, while the standard catch-up limit is \$7,500.

The proposed regulations clarify that plans offering catch-up contributions have the *option* to include super catch-up contributions. However, offering super catch-up contributions would normally violate the universal availability requirement that applies to catch-up contributions, which is meant to ensure all catch-up-eligible employees have the same opportunity to make the same dollar amount of catch-up contributions. To address this, the proposed regulations introduce a new exception to the catch-up contribution universal availability requirement, allowing plans to offer super catch-up contributions to only participants age 60 to 63 without violating the universal availability requirement, while other eligible participants can only contribute up to the regular catch-up limit.

OTHER HEADLINES

DOMESTIC HEADLINES

- **California wildfire victims qualify for tax relief and deadline extensions.**^{vi} The Internal Revenue Service announced [on January 10th] tax relief for individuals and businesses in southern California affected by wildfires and straight-line winds that began on January 7, 2025.

These taxpayers now have until October 15, 2025, to file various federal individual and business tax returns and make tax payments.

The IRS is offering relief to any area designated by the Federal Emergency Management Agency (FEMA). Currently, individuals and households that reside or have a business in Los Angeles County qualify for tax relief.

- **IRS announces tax relief for taxpayers impacted by severe storms, straight-line winds, flooding, and landslides in Kentucky.**^{vii} The Internal Revenue Service announced today tax relief for individuals and businesses in the entire state of Kentucky affected by severe storms, straight-line winds, flooding, and landslides that began on Feb. 14, 2025. These taxpayers now have until Nov. 3, 2025, to file various federal individual and business tax returns and make tax payments.
- **Funding Freeze Creates Uncertainty for Taxpayer Clinics.**^{viii} The Trump administration's decision to pause federal funding that was halted by a federal court order is causing heightened uncertainty for clinics that help low-income taxpayers comply with the tax law.

Congressional budget negotiations also aren't providing any reassurance for the low-income taxpayer clinics, which previously had bipartisan support.

- **IRS announces 2025 filing season changes aimed at preventing spread of scams, schemes.**^{ix} The Internal Revenue Service and partners in the Coalition Against Scam and Scheme Threats (CASST)

today released changes for the 2025 filing season designed to help protect taxpayers from becoming victims of a scam or scheme and preventing tax professionals from having their credentials compromised.

The changes to protect taxpayers include:

- a new form involving the Fuel Tax Credit that's designed to make it harder for well-meaning taxpayers to be misled into claiming the credit by promoters.
 - stepping up review on a variety of "other withholding" claims on Form 1040 that have been targets of scammers and schemers.
 - reaching out to taxpayers who have potentially been using "ghost preparers" to prepare tax returns. These preparers don't identify themselves on the tax return, which is a red flag for taxpayers to be misled into a scam or scheme.
- **The U.S. Economy Depends More Than Ever on Rich People.**^x The top 10% of earners—households making about \$250,000 a year or more—are splurging on everything from vacations to designer handbags, buoyed by big gains in stocks, real estate and other assets.

Those consumers now account for 49.7% of all spending, a record in data going back to 1989, according to an analysis by Moody's Analytics. Three decades ago, they accounted for about 36%.

- **Observers Ponder Biden's Tax Policy Legacy.**^{xi} The tax policy initiatives of former President Biden hang in the balance as a Republican-controlled Congress and White House begin to unravel his legacy by using a slew of executive orders and legislative actions.

It may be premature to assign a firm grade to the policies pursued under Biden — supporters and critics alike paint the picture of a president who sought to transform the IRS and the tax code into key vehicles for his Made in America economic agenda. But Biden also faced strong headwinds — some of his own making — in pursuit of those goals.

Now with President Trump back at 1600 Pennsylvania Avenue and Republicans enjoying full control of Congress — at least for the next two years — Biden's ambitious attempt to revamp the U.S. tax system appears to be on shaky ground, and it remains to be seen which policies, if any, will survive.

- **Social Security Administration: DOGE Cannot Make Changes to Benefit Payments.**^{xii} Acting Social Security Commissioner Lee Dudek issued a statement to reassure Americans that DOGE will not disrupt the working of the Social Security Administration, after concerns were raised in recent weeks. "Our continuing priority is paying beneficiaries the right amount at the right time, and providing other critical services people rely on from us." Dudek also invited the scrutiny of the Office of the Inspector General.

Disclosures

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ⁱ <https://www.irs.gov/pub/irs-drop/rr-25-06.pdf>

ⁱⁱ https://www.wsj.com/politics/policy/house-republican-budget-plan-vote-0feada2f?mod=hp_lead_pos2

ⁱⁱⁱ <https://taxfoundation.org/blog/who-pays-tariffs/>

^{iv} <https://www.bakertilly.com/insights/irs-provides-additional-1099-k-relief>

^v <https://www.milliman.com/en/insight/secure-2-irs-proposed-catch-up-contribution>

^{vi} <https://www.irs.gov/newsroom/irs-california-wildfire-victims-qualify-for-tax-relief-various-deadlines-postponed-to-oct-15>

^{vii} <https://www.irs.gov/newsroom/irs-announces-tax-relief-for-taxpayers-impacted-by-severe-storms-straight-line-winds-flooding-and-landslides-in-kentucky-various-deadlines-postponed-to-nov-3>

^{viii} <https://www.taxnotes.com/featured-news/funding-freeze-creates-uncertainty-taxpayer-clinics/2025/02/12/7r1mw>

^{ix} <https://www.irs.gov/newsroom/irs-casst-announce-2025-filing-season-changes-aimed-at-preventing-spread-of-scams-schemes-new-fuel-tax-credit-statement-and-increased-review-of-other-withholding-claims-among-highlights>

^x https://www.wsj.com/economy/consumers/us-economy-strength-rich-spending-2c34a571?mod=hp_major_pos1

^{xi} <https://www.taxnotes.com/featured-news/observers-ponder-bidens-tax-policy-legacy/2025/02/07/7r14s>

^{xii} https://www.kiplinger.com/retirement/social-security/social-security-administration-says-doge-will-not-disrupt-your-payments?utm_term=1731D5CC-1D41-4F48-863C-93A45FDFFAFE&lrh=c9e858c4beddb20a5b93bb9453bd0621b59b65f0fd4390f9f4e0aee66da7d32c&utm_campaign=243E84A8-CF5C-4D54-8046-FA0F97552340&utm_medium=email&utm_content=0F9E1FD7-780B-4088-B617-C43602DA4195&utm_source=SmartBrief