

FEDERAL TAX WEEKLY

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2019 Tax Filing Season Begins; Returns Due April 15

IR-2019-7

The IRS has started accepting and processing 2018 federal individual income tax returns. The deadline to submit 2018 tax returns and pay any taxes due is Monday, April 15, 2019 for most taxpayers. However, taxpayers living in Maine and Massachusetts will have until April 17 to file because of the Patriots' Day holiday on April 15, and the Emancipation Day holiday on April 16.

Tax Filing Season Begins

Despite the changes in the Tax Cuts and Jobs Act, the Service was able to open this year's tax-filing season one day earlier than the 2018 tax-filing season. The IRS expects 90 percent of the returns to be filed electronically. E-filing and direct deposit remain the fastest and safest way to file an accurate income tax return and receive a refund.

Taxpayers should check "Where's My Refund?" after filing a return for updates on their refund's status. Moreover, before calling the IRS for help, taxpayers should consult two online resources:

- Publication 5307, Tax Reform: Basics for Individuals and Families, and
- Publication 5318; Tax Reform What's New for Your Business.

Qualified taxpayers who still need assistance may visit one of the 12,000 community-based tax help sites that participate in the Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs.

Delayed Refunds

Like last year, the Service expects refunds associated with:

- the Earned Income Tax Credit, or
- the Additional Child Tax Credit,

to be available by direct deposit beginning on February 27, 2019.

Expired TINs

Many Individual Taxpayer Identification Numbers (ITINs) expired on December 31, 2018. The expired ITINs include:

- any ITIN not used on a tax return at least once in the past three years, and
 - any ITIN with middle digits of 73, 74, 75, 76, 77, 81 and 82 (Example: 9NN-73-NNNN)
- ITINs with middle digits 70, 71, 72 or 80 expired on December 31, 2017, but taxpayers can still renew them.

Affected taxpayers should act soon to avoid refund delays and possible loss of eligibility for some key tax benefits.

Finally, taxpayers can learn more about how to verify their identity and electronically sign tax returns at Validating Your Electronically Filed Tax Return.

Tax Refunds Will be Issued Timely, Mnuchin Says

Despite the 35-day partial government shutdown, tax refunds are expected to be issued timely this year. To that end, Treasury and the IRS are prepared for the 2019 tax filing season, which began on January 28, according to Treasury Secretary Steven Mnuchin.

Tax Refunds

“We’re taking tax returns. We’ll be ready for tax refunds. We’ll have the phones restaffed,” Mnuchin said in a January 29 televised interview. “We are ready for tax season, and I can assure you that tax refunds will be paid as normal,” he added.

Moreover, the IRS has announced that it expects the first tax refunds to go out during the first week of February. Additionally, many refunds will be paid by mid- to-late February, as in previous years, the IRS noted. “The IRS will be doing

everything it can to have a smooth filing season,” IRS Commissioner Charles Rettig said in a statement.

Tax Reform Implementation

Lawmakers and tax practitioners alike have expressed concern over the IRS’s ability to manage the filing season after the agency experienced a nearly 90 percent reduction in staff because of the shutdown. In addition to stalled operations and limited resources weighing on the IRS, this is the first tax filing season since tax reform implementation.

Implementation of the Tax Cuts and Jobs Act (TCJA) (P.L. 115-97) has gone as “smoothly as can be expected,” Mark Warren, minority chief tax counsel for the Senate Finance Committee (SFC), said on January 29 at a DC Bar event in Washington, D.C. Additionally, Treasury

and the IRS have “very clearly been cognizant” of all the comments received on TCJA regulations, according to Warren. Further, Warren noted that the IRS “miraculously” opened the 2019 tax filing season on time, which was largely viewed on Capitol Hill as a heavy lift.

That said, however, additional TCJA-related guidance is anticipated in the coming weeks and months and is expected to leave many taxpayers waiting to file returns. “With limited staff working on TCJA implementation, a slowdown in releasing crucial guidance seems likely,” Annette Nellen, chair of the American Institute of CPAs (AICPA) Tax Executive Committee, wrote last week to the IRS and Treasury. Additionally, many tax forms and instructions are still pending and in draft stages, which will likely result in issues with the readiness of tax preparation software, according to Nellen.

IRS Postpones Canceling Tax Transcript Faxing Service After Grassley, Wyden Urge Delay

The IRS has said that it is postponing its plan to discontinue faxing taxpayer transcripts. The IRS statement came on the heels of a letter sent earlier this week from bipartisan leaders of the Senate Finance Committee urging such a delay.

IRS Cybersecurity

The IRS announced in IRS News Release IR-2018-256 last December that it would stop its tax transcript faxing service for individuals and businesses on February 4, 2019. The IRS cited to reasons of taxpayer

security for the change in procedure. To that end, ceasing the IRS’s transcript faxing service would better prohibit cybercriminals from obtaining taxpayer data, according to the IRS.

Grassley, Wyden Urge Delay

SFC Chairman Chuck Grassley, R-Iowa, and ranking member Ron Wyden, D-Ore., sent IRS Commissioner Charles Rettig a letter earlier this week expressing concern with the IRS’s original timeline for discontinuing the tax transcript faxing service.

The bipartisan leaders did not ask the IRS to eliminate its plan to discontinue the particular service. However, they did encourage the IRS to extend the date of discontinuation for the sake of taxpayers and practitioners in light of the recent partial government shutdown, which included the IRS.

“[W]e encourage the IRS to delay its planned discontinuation of faxing taxpayer information until such time that the agency can reasonably resolve the legitimate concerns of the tax-practitioner community about alternatives

REFERENCE KEY

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

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to the IRS faxing taxpayer information,” Grassley and Wyden wrote. “Of course, such a delay should not compromise the security or privacy of taxpayer information.”

IRS Extends Transcript Faxing Service

The IRS’s Wage & Investment Division issued a January 30 statement stating that

the IRS will extend its transcript faxing service beyond February 4. Additionally, the IRS said it is reviewing options for a new timeline and will provide taxpayers and practitioners advance notice of the new date.

Current Plan Liability Rates Set for January 2019

Notice 2019-13

For pension plan years beginning in January 2019, 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 January 2019 (without adjustment for the 25-year average segment rate limits):

- 2.55 for the first segment rate,
- 3.93 for the second, and
- 4.49 for the third.

January 2019 Adjusted Segment Rates

The January 2019 adjusted segment rates for plan years beginning in 2017 are:

- 4.16 for the first,
- 5.72 for the second, and
- 6.48 for the third.

The rates for plan years beginning in 2018 are:

- 3.92 for the first segment,
- 5.52 for the second, and
- 6.29 for the third.

The rates for plan years beginning in 2019 are:

- 3.74 for the first segment,
- 5.35 for the second, and
- 6.11 for the third.

30-Year Treasury Weighted Average

For plan years beginning in January 2019, the 30-year Treasury weighted average

AFRs Issued For February 2019

Rev. Rul. 2019-4

The IRS has released the short-term, mid-term, and long-term applicable interest rates for February 2019.

Applicable Federal Rates (AFR) for February 2019

	Annual	Semiannual	Quarterly	Monthly
Short-Term				
AFR	2.57%	2.55%	2.54%	2.54%
110% AFR	2.83%	2.81%	2.80%	2.79%
120% AFR	3.08%	3.06%	3.05%	3.04%
130% AFR	3.35%	3.32%	3.31%	3.30%
Mid-Term				
AFR	2.63%	2.61%	2.60%	2.60%
110% AFR	2.89%	2.87%	2.86%	2.85%
120% AFR	3.15%	3.13%	3.12%	3.11%
130% AFR	3.42%	3.39%	3.38%	3.37%
150% AFR	3.96%	3.92%	3.90%	3.89%
175% AFR	4.62%	4.57%	4.54%	4.53%
Long-Term				
AFR	2.91%	2.89%	2.88%	2.87%
110% AFR	3.21%	3.18%	3.17%	3.16%
120% AFR	3.50%	3.47%	3.46%	3.45%
130% AFR	3.80%	3.76%	3.74%	3.73%

Adjusted AFRs for February 2019

	Annual	Semiannual	Quarterly	Monthly
Short-term adjusted AFR	1.95%	1.94%	1.94%	1.93%
Mid-term adjusted AFR	1.99%	1.98%	1.98%	1.97%
Long-term adjusted AFR	2.20%	2.19%	2.18%	2.18%

The Code Sec. 382 adjusted federal long-term rate is 2.20%; 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 2.51%; the Code Sec. 42(b)(1) appropriate percentages for the 70% and 30% present value low-income housing credit are 7.64% and 3.27%, respectively, however, under Code Sec. 42(b)(1), the appropriate percentage for non-federally subsidized new buildings placed in service after July 30, 2008, and before December 31, 2013, 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 3.2%.

securities rate is 2.92, with a permissible range of 2.63 to 3.06.

The rate of interest on 30-year Treasury securities for December 2018 is 3.10 percent.

The minimum present value segment rates under Code Sec. 417(e)(3)(D) for December 2018 are:

- 3.38 for the first segment rate,
- 4.32 for the second, and
- 4.69 for the third.

PCAs' Performance Needs Improvement, TIGTA Find

TIGTA Report: Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance (Reference Number: 2019-30-018)

Private collection agencies performed well in terms of procedural accuracy and professionalism, but improvements could be done to enhance efficiency of the private debt collection program and protect taxpayer rights, as per a biannual independent assessment of PCAs released by the Treasury Inspector General for Tax Administration (TIGTA). TIGTA conducted this audit in accordance with the requirements of the Fixing America's Surface Transportation (FAST) Act.

TIGTA found that the IRS assigned more than 700,000 taxpayer accounts to

PCAs, who in return collected \$88.8 million (2 percent) from the balance owed on these accounts. Further, the PCAs also established more than 21,000 payment arrangements, but taxpayers failed to make payments on more than half of them.

TIGTA also found that all of the PCAs performed well under the attributes of procedural accuracy and professionalism. However, TIGTA found that PCA payment calculators do not calculate interest and penalties accurately. Moreover, most PCA payment arrangements were 60 months or shorter, and the IRS did not check shorter arrangements.

TIGTA sampled 100 such arrangements and determined that 65 percent

differed by at least one month. Further, the IRS's quarterly and targeted quality reviews of PCA performance identified various problems, such as mishandling of aged accounts and procedural errors on payment arrangements.

The IRS made more than 60 recommendations to the PCAs to address these issues; however, these issues were not reflected in PCA quality scores. In addition, TIGTA determined that improving the payment process could increase PCA revenue and reduce the number of defaulted agreements.

TIGTA made 13 recommendations to improve program efficiency and protect taxpayer rights. The IRS agreed or partially agreed with nine of the recommendations.

TAX BRIEFS

Basis Adjustments

Inclusion of improvement expenses, selling expenses and depreciation was disallowed in computation of a property's adjusted basis. In addition, various Schedule C, Schedule D and Schedule A deductions were denied for lack of substantiation.

Andersen Est., TC, Dec. 61,403(M)

Foreign Per Diems

The U.S. State Department has released a listing of maximum travel *per diem* allowances for travel in foreign areas. The rates apply to all government employees and contractors, and are effective as of February 1, 2019.

February Maximum Travel Per Diem Allowances for Foreign Areas

Late-Filing Penalty

A district court decision denying an abatement of a late-filing penalty to a married

couple was vacated and remanded. The IRS rejected the couple's timely e-filed return because it had the wrong employment-identification number, and a rejection notice was never sent to the accountant. Whether it was reasonable for the accountant to assume, based on the IRS's silence, that it had accepted the taxpayers' return or whether ordinary business care and prudence would demand that he personally contact the IRS to ensure acceptance was a genuine question of material fact for the jury to decide.

Haynes, CA-5, 2019-1 USTC ¶50,141

Mortgage Lien Priority

Banks mortgage lien survived a nonjudicial foreclosure sale of a real property and tax liens against the property were inferior to the banks lien.

First Sentinel Bank, DC Va., 2019-1 USTC ¶50,142

Notice of Deficiency

The District court had properly denied an individual's cross motion claiming refund of illegally collected taxes. The Government established both the existence and proper mailing of NODs and the individual did not offer any persuasive evidence to the contrary.

Meyer, CA-8, 2019-1 USTC ¶50,140

Wage Statements

The IRS reminded employers and other businesses that the due date for filing wage statements and independent contractor forms is January 31, 2019. This includes Form W-2, Wage and Tax Statement, and Form W-3, Transmittal of Wage and Tax Statements. The deadline also applies to certain Forms 1099-MISC, Miscellaneous Income, to report nonemployee compensation to independent contractors.

IR-2019-8