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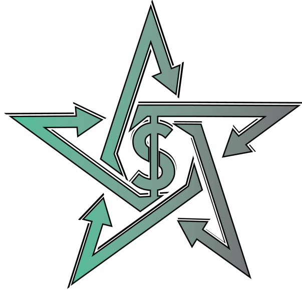

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Vehicle Depreciation Limits

Cross References

- Rev. Proc. 2024-13
- IRC §280F

When the actual expense method is used for deducting the business use of a vehicle, the cost of the vehicle is depreciated under MACRS using a 5-year recovery period. The Section 179 deduction is also allowed for business vehicles. The annual deduction for depreciation, including any Section 179 deduction or special depreciation allowance is limited to statutory amounts. The special depreciation allowance does not apply to IRC section 280F property. Instead, these limits are increased by $8,000 for the first year.

The annual deduction is the lesser of:

- The vehicle's basis multiplied by the business use percentage multiplied by the applicable depreciation percentage, or
- The IRC section 280F limit multiplied by the business percentage.

The IRC section 280F limits are adjusted each year for inflation. The chart below reflects the new IRC section 280F limits for 2024 in comparison to previous years.

Vehicle Depreciation Limitations (IRC §280F)		
Tax year first placed in service:	**2024**	**2023**
Vehicle depreciation limitations based on 100% business or investment use:		
1st year if special depreciation is claimed	$20,400	$20,200
1st year depreciation	$12,400	$12,200
2nd year depreciation	$19,800	$19,500
3rd year depreciation	$11,900	$11,700
Each succeeding year	$7,160	$6,960

Certain Required Minimum Distributions for 2024

Cross References

- Notice 2024-35

Qualified plans and IRAs are subject to the required minimum distribution (RMD) rules, which require the owner to start taking minimum distributions by a certain age. If the owner dies, the designated beneficiary of the plan is subject to the RMD rules.

In general, if a designated beneficiary is the surviving spouse of the decedent, the surviving spouse may elect to be treated as the owner of the qualified plan or IRA, and not as the beneficiary. If this election is made, the surviving spouse determines RMDs as if he or she was the owner beginning with the year of the election.

An eligible designated beneficiary may take distributions over his or her lifetime. An eligible designated beneficiary is a surviving spouse, an individual who is disabled, an individual who is chronically ill, an individual who is not more than 10 years younger than the decedent, or the decedent's minor child under age 21.

For accounts inherited after December 31, 2019, a 10-year rule applies to all other designated beneficiaries who are not eligible beneficiaries (a designated beneficiary who is more than 10 years younger than the decedent, such as the decedent's child who is not a minor child).

If the 10-year rule applies, it applies regardless of whether the owner dies before or after the required beginning date for taking RMDs. The 10-year rule means the remainder of the decedent's account balance must be distributed within 10 years after the death of the decedent.

A similar 5-year rule applied to accounts inherited before January 1, 2020. Under the 5-year rule, the entire account balance could be distributed at the end of the five years. Proposed regulation issued by the IRS in 2022 said that under the new 10-year rule, distributions had to be made at least annually starting with the calendar year after the calendar year of the decedent's death, with the entire balance being distributed by the end of the 10th year.

This caused confusion amongst individuals who thought that the 10-year rule would apply like the old 5-year rule, meaning that they would not have to take any RMD until the end of the 10-year period following the death of the decedent. As a result, some who inherited accounts during 2020 did not take an RMD in 2021 and were unsure of whether they would be required to take an RMD in 2022. Commenters on the proposed regulations asserted that, if final regulations adopt the interpretation of the 10-year rule in the proposed regulations, the IRS should provide transition relief for failure to take RMDs that were due in 2021 or 2022.

In response to these comments, the IRS issued Notice 2022-53 which announced that the final regulations would apply no earlier than the 2023 distribution calendar year and said taxpayers who did not take a specified RMD in 2021 or 2022 would not be subject to the penalty for failing to take the specified RMD.

Subsequently, the IRS issued Notice 2023-54, which extended the relief in Notice 2022-53 to 2023 RMDs, meaning the final regulations would not apply until 2024.

Notice 2024-35 now states that the final regulations regarding RMDs are anticipated to apply for determining RMDs for calendar year 2025 and beyond. Thus, no penalty will apply for plans that did not make a specified RMD for 2024. This rule applies for owners of qualified plans or IRAs who died in 2020, 2021, 2022, or 2023 and the designated beneficiary is not an eligible designated beneficiary taking distributions over his or her life expectancy.

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Draft Version of Form 1099-DA Released

Cross References

- https://www.irs.gov/pub/irs-dft/f1099da--dft.pdf

The IRS has released the draft version of Form 1099-DA, *Digital Asset Proceeds From Broker Transactions*, for the 2025 tax year.

Beginning in 2025, brokers must report proceeds from (and in some cases, basis for) digital asset dispositions to taxpayers and the IRS on Form 1099-DA. Taxpayers may be required to recognize gain from these dispositions of digital assets.

Reporting is also required when a broker knows or has reason to know that a corporation in which the taxpayer owns a digital asset that is also stock has had a reportable change in control or capital structure. The taxpayer may be required to recognize gain from the receipt of cash, services, digital assets, or other property that was exchanged for a digital asset that is also the corporation's stock.

If a taxpayer receives a Form 1099-DA, it means the taxpayer sold, exchanged, or otherwise disposed of a financial interest in a digital asset. Check the "Yes" box next to the question on page 1 of Form 1040, and report the gain or loss on Form 8949, *Sales and Other Dispositions of Capital Assets.*

Brokers are also required to report the basis of the digital asset sold, exchanged, or otherwise disposed of in Box 1g of Form 1099-DA, unless box 10a is checked. Box 10a is checked when the cost or other basis is unknown to the broker, or the digital assets were acquired prior to January 1, 2023, or sold prior to January 1, 2026. A broker may not know the cost basis if it did not provide hosted wallet services for the digital asset, the digital asset was transferred in to the broker, or it was acquired prior to 2023.

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Tax Treatment of Certain Energy Rebate Programs

Cross References

- Announcement 2024-19

The Inflation Reduction Act of 2022 included two Department of Energy (DOE) programs for whole-house energy savings retrofits and high-efficiency home electrification projects. Under the programs, money is distributed to fund State energy offices to establish rebate

programs for owners of residential property for whole-house energy-saving retrofits, and to fund State energy offices and Indian Tribes to establish rebate programs for owners and occupants of residential property for qualified electrification projects.

Individual taxpayers. The IRS has recently issued guidance that state a rebate paid to or on behalf of a purchaser pursuant to either of the DOE Home Energy Rebate Programs will be treated as a purchase price adjustment for the purchaser for federal income tax purposes. Any such rebate is, therefore, not includible in the purchaser's gross income.

The purchase price adjustment is an adjustment to the purchaser's basis in the property. For example, if a $500 rebate is provided at the time of sale of eligible property with a sales price (before the rebate) of $600, then the purchaser's cost basis in the property is equal to $100.

Payments of rebate amounts are not subject to information reporting under IRC section 6041.

Rebates to certain business taxpayers. Payments of rebate amounts made directly to a business taxpayer, such as a contractor, in connection with the taxpayer's sale of goods or provision of services to a purchaser are not excluded from the business taxpayer's gross income. Accordingly, such rebates are taxable to the business taxpayer. Such rebates may also be subject to information reporting under IRC section 6041.

Coordination of rebates with energy tax credits. Starting in 2023, taxpayers can receive a federal tax credit under IRC section 25C of up to 30% of certain qualified expenditures for making energy efficiency improvements to their home (Energy Efficient Home Improvement Credit). The credit is generally limited to an annual cap of $1,200, with an additional $2,000 annual cap for improvements that include electric or natural gas heat pumps, electric or natural gas heat pump water heaters, or biomass stoves and boilers.

Taxpayers who receive rebates under the DOE Home Energy Rebate Programs who are also eligible for the Energy Efficient Home Improvement Credit must reduce the amount of qualified expenditures used to calculate the credit by the amount of the rebate. For example, if a taxpayer purchases an eligible product for $400 and receives a $100 rebate for this purchase, the taxpayer may claim a 30% credit with respect to the remaining $300 of qualifying expenditures, resulting in a $90 credit ($300 × 30%).

In addition, if a taxpayer purchases items eligible for both the rebate and the credit, the taxpayer may make a pro rata allocation of amounts received as rebates to individually itemized expenditures as a share of the total project cost in determining the amounts paid for such items under IRC section 25C.

For example, if a $2,000 rebate for a whole-house energy-saving retrofit is proportionately allocated 60% to $3,000 in qualifying expenditures for a heat pump ($1,200 of the $2,000 rebate), and 40% to $2,000 in qualifying expenditures for insulation ($800 of the $2,000 rebate), the taxpayer may treat the amount paid for the heat pump as $1,800 ($3,000 less the $1,200 allocated portion of the rebate) and $1,200 for the insulation ($2,000 less the $800 allocated portion of the rebate) for purposes of the Energy Efficient Home Improvement Credit.

High-Income Non-Filers

Cross References

- IR-2024-56, February 29, 2024

In the continuing effort to improve tax compliance and ensure fairness, the Internal Revenue Service has announced a new effort focused on high-income taxpayers who have failed to file federal income tax returns in more than 125,000 instances since 2017.

The new initiative, made possible by Inflation Reduction Act funding, begins with IRS compliance letters going out this week on more than 125,000 cases where tax returns haven't been filed since 2017. The mailings include more than 25,000 to those with more than $1 million in income, and over 100,000 to people with incomes between $400,000 and $1 million between tax years 2017 and 2021.

These are all cases where IRS has received third party information, such as through Forms W-2 and 1099s, indicating these people received income in these ranges but failed to file a tax return. Without adequate resources, the IRS non-filer program has only run sporadically since 2016 due to severe budget and staff limitations that didn't allow these cases to be worked. With new Inflation Reduction Act funding available, the IRS now has the capacity to do this core tax administration work.

"At this time of year when millions of hard-working people are doing the right thing paying their taxes, we cannot tolerate those with higher incomes failing to do a basic civic duty of filing a tax return," said IRS Commissioner Danny Werfel. "The IRS is taking this step to address this most basic form of non-compliance, which includes many who are engaged in tax evasion. This is one of the clearest examples of the need to have a properly funded IRS. With the Inflation Reduction Act resources, the agency finally has the funding to identify non-filers, ensure they meet this core civic responsibility, and ultimately help ensure fairness for everyone who plays by the rules."

The IRS will begin mailing these compliance alerts for failure to file a tax return, formally known as the CP59 notice. About 20,000 to 40,000 letters will go out each week, beginning with the filers in the highest-income categories. The IRS noted that some of these non-filers have multiple years included in the case count so the number of taxpayers receiving letters will be smaller than the actual number of notices going out.

People receiving these letters should take immediate action to avoid additional follow-up notices, higher penalties as well as increasingly stronger enforcement measures. People in this category should also consult with a trusted tax professional so they can quickly file their late tax returns and pay delinquent tax, interest and penalties. The failure-to-file penalty amounts to 5% of the amount owed every month – up to 25% of the tax bill. There is also special non-filer information on IRS.gov that can assist them.

Since the IRS is not aware of the potential credits and deductions these people may have, the amount of potential revenue to be gained from this effort is uncertain. The third party information on these taxpayers indicates financial activity of more than $100 billion. Even with a conservative estimate, the IRS believes hundreds of millions of dollars of unpaid taxes are involved in these cases. At the same time, some non-filers may actually be owed a refund.

"If someone hasn't filed a tax return for previous years, this is the time to review their situation and make it right," Werfel said. "For those who owe, the risk will just grow over time as will the potential for penalties and interest. These non-filers should review information on IRS.gov that can help and consider talking to a trusted tax professional as soon as possible."

The new non-filer initiative is part of a larger effort underway with the IRS working to ensure large corporate, large partnership and high-income individual filers pay the taxes they owe. Prior to the Inflation Reduction Act, more than a decade of budget cuts prevented the IRS from keeping pace with the increasingly complicated set of tools that the wealthiest taxpayers use to shelter or manipulate their income to avoid taxes. The IRS is now taking swift and aggressive action to close this gap.

The IRS has a variety of efforts underway to improve tax compliance in overlooked areas where the agency did not have adequate resources prior to Inflation Reduction Act funding.

For example, the IRS is continuing to pursue millionaires that have not paid hundreds of millions of dollars in tax debt. The IRS has collected nearly $500 million in ongoing efforts to recoup taxes owed by 1,600 millionaires with work continuing in this area. In other areas, the IRS is pursuing multi-million-dollar partnership balance sheet discrepancies, ramping up audits of more than 75 of the largest partnerships using artificial intelligence (AI) as well as other areas.

The new non-filer effort focused on high-income taxpayers who haven't submitted a tax return is part of this larger effort to expand IRS compliance work to ensure fairness in the tax system.

High-income non-filers: IRS actions escalate if tax returns aren't filed. People who don't respond to the non-filer letter will receive additional notices and other enforcement actions. Ultimately, this can lead to a variety of IRS compliance activity, including collection and audit action as well as potential criminal prosecution. As part of this, the IRS can also take steps to file what's known as a Substitute for Return (SFR).

If a person repeatedly fails to respond and does not file, the IRS may create a substitute tax return for the tax payer. The IRS calculates this substitute tax return based on wages and other income reported to the agency by employers, financial institutions and others. The return factors in the tax, penalty and interest owed by the taxpayer.

This tax return might not give the person credit for deductions and exemptions they may be entitled to receive because the IRS does not know each taxpayer's situation. In this scenario, the IRS will send a notice of deficiency CP3219N (a 90-day letter) proposing a tax assessment. The taxpayer will have 90 days to file the past due tax return or file a petition in Tax Court. If the person does neither, the IRS will proceed with the proposed assessment.

If the IRS files a substitute return, it is still in the person's best interest to file their own tax return to take advantage of any exemptions, credits and deductions they are entitled to receive. The IRS will generally adjust the account to reflect the correct figures.

The tax return the IRS prepares for these taxpayers will likely lead to a tax bill, which, if unpaid, will trigger the collection process. This can include such actions as a levy on wages or a bank account or the filing of a notice of federal tax lien. If a taxpayer repeatedly does not file, they could be subject to additional enforcement measures, such as additional penalties and/or criminal prosecution.

Transfer of Certain Credits

Cross References

- IRC §6418, *Transfer of certain credits*
- TD 9993

Effective for tax years beginning after December 31, 2022, eligible taxpayers may elect to transfer their eligible credits to a transferee taxpayer which is not related to the eligible taxpayer. Under this election, the transferee taxpayer claims the credit rather than the eligible taxpayer that originally qualified for the credit.

For any amount paid by a transferee taxpayer to an eligible taxpayer as consideration for a transferred credit, such consideration must be paid in cash, is not includible in gross income of the eligible taxpayer, and not deductible by the transferee taxpayer.

If a partnership or S corporation makes this election with respect to the credit:

- Any amount received as consideration for a transfer is treated as tax exempt income for purposes of IRC section 705 and 1366, and
- A partner's distributive share of such tax exempt income is based on the partner's distributive share of the otherwise eligible credit for each tax year.

The election is made at the partnership or S corporation level.

An eligible taxpayer is any taxpayer other than a taxpayer described under IRC section 6417(d)(1)(A) (tax exempt organizations, state or political subdivisions, the Tennessee Valley Authority, Indian tribal governments, Alaska Native Corporations, and cooperatives engaged in furnishing electric energy to persons in rural areas).

Final regulations. In April of 2024, the IRS issued final regulations on the application of the transfer of certain credits rules under IRC section 6418. The final regulations define the term "eligible credits" to mean the following 11 credits:

- The alternative fuel vehicle refueling property credit under IRC section 30C,
- The renewable electricity production credit under IRC section 45,
- The carbon oxide sequestration credit under IRC section 45Q,
- The zero-emission nuclear power production credit under IRC section 45U,
- The clean hydrogen production credit under IRC section 45V,
- The advanced manufacturing production credit under IRC section 45X,
- The clean electricity production credit under IRC section 45Y,
- The clean fuel production credit under IRC section 45Z,
- The energy credit under IRC section 48,
- The qualifying advanced energy project credit under IRC section 48C, and
- The clean electricity investment credit under IRC section 48E.

The purpose of the transfer of certain credits provision is similar to the clean vehicle credit provision that allows a taxpayer purchasing an electric car to transfer the credit to the dealership in exchange for a reduced purchase price. Under the transfer of certain credits provision, a partnership could purchase property eligible for one of the energy credits and elect to transfer the credit to the seller in exchange for a reduced purchase price rather than having to pass through the credit to the partners.

The final regulations provide guidance on:

- The mandatory information and registration requirements for transfer elections,
- The definition of an applicable entity,
- The definition of an eligible taxpayer,
- The definition of eligible credit property,
- The definition of the term "paid in cash," and
- The definition of the term "specified credit portion."

The final regulations also provide general rules on the specifics of how to make a transfer election and the transfer election statement that must be attached to the taxpayer's tax return.

The final regulations also include special rules related to excessive credit transfers and recapture events. They also provide rules for a mandatory IRS pre-filing registration process through an electronic portal and describe specific rules for partnerships and S corporations as eligible taxpayers and transferee taxpayers.

See the final regulations for details.