

Weekly IRS Roundup May 31 – June 3, 2022

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Presented below is our summary of significant Internal Revenue Service (IRS) guidance and relevant tax matters for the week of May 31, 2022 – June 3, 2022.

May 31, 2022: The IRS issued a [press release](#), reminding taxpayers living and working outside the United States that their 2021 federal income tax return is due on June 15, 2022. The deadline applies to both US citizens and resident aliens abroad, including those with dual citizenship. The press release also contains other information to assist said taxpayers with their filings.

June 1, 2022: The IRS [issued](#) the first part of its “Dirty Dozen” tax scams for 2022, focusing on the following items:

- **Use of Charitable Remainder Annuity Trust (CRAT) to Eliminate Taxable Gain.** In this transaction, appreciated property is transferred to a CRAT. Taxpayers improperly claim the transfer of the appreciated assets to the CRAT, which in and of itself gives those assets a step-up in basis to fair market value as if they had been sold to the trust. The CRAT then sells the property but does not recognize gain because of the claimed step-up in basis. Next, the CRAT uses the proceeds to purchase a single premium immediate annuity (SPIA). The beneficiary reports, as income, only a small portion of the annuity received from the SPIA. Through a misapplication of the law relating to CRATs, the beneficiary treats the remaining payment as an excluded portion representing a return of investment for which no tax is due. Taxpayers seek to achieve this inaccurate result by misapplying the rules under sections 72 and 664.
- **Maltese (or Other Foreign) Pension Arrangements Misusing Treaty.** In these transactions, US citizens or US residents attempt to avoid US tax by making contributions to certain foreign individual retirement arrangements in Malta (or possibly other foreign countries). In these transactions, the individual typically lacks a local connection, and local law allows contributions in a form other than cash or does not limit the amount of contributions by reference to income earned from employment or self-employment activities. By improperly asserting that the foreign arrangement is a “pension fund” for US tax treaty purposes, the US taxpayer misconstrues the relevant treaty to improperly claim an exemption from US income tax on earnings in, and distributions from, the foreign arrangement.

- **Puerto Rican and Other Foreign Captive Insurance.** In these transactions, US owners of closely held entities participate in a purported insurance arrangement with a Puerto Rican or other foreign corporation with cell arrangements or segregated asset plans in which the US owner has a financial interest. The US-based individual or entity claims deductions for the cost of “insurance coverage” provided by a fronting carrier, which reinsures the “coverage” with the foreign corporation. The characteristics of the purported insurance arrangements typically include one or more of the following: implausible risks covered, non-arm’s length pricing and lack of business purpose for entering into the arrangement.
- **Monetized Installment Sales.** These transactions involve the inappropriate use of the installment sale rules under section 453 by a seller who, in the year of a sale of property, effectively receives the sales proceeds through purported loans. In a typical transaction, the seller enters into a contract to sell appreciated property to a buyer for cash and then purports to sell the same property to an intermediary in return for an installment note. The intermediary then purports to sell the property to the buyer and receives the cash purchase price. Through a series of related steps, the seller receives an amount equivalent to the sales price (less various transactional fees) in the form of a purported loan that is nonrecourse and unsecured.

June 1, 2022: The IRS [announced](#) that it is looking to hire over 4,000 contact representative positions at IRS offices nationwide this summer. The positions will provide administrative and technical assistance to individuals and businesses primarily over the phone, through written correspondence or in person. No prior tax experience is required. Virtual information sharing events will also be held throughout the month of June.

June 1, 2022: The IRS [announced](#) that it has extended the deadline for accepting applications for the Tax Counseling for the Elderly (TCE) and Volunteer Income Tax Assistance (VITA) grant programs to June 17, 2022. The TCE program provides tax counseling and return preparation to persons aged 60 or older and give technical assistance to the volunteers who provide free federal income tax assistance within elderly communities across the nation. The VITA program provides free tax filing assistance to underserved communities.

June 2, 2022: The IRS [reminded](#) taxpayers who requested an extension to file a complete and accurate return electronically as early as possible and that there is no need to wait until October.

June 3, 2022: The IRS released its weekly list of [written determinations](#) (e.g., Private Letter Rulings, Technical Advice Memorandums and Chief Counsel Advice).

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