

Applicable Federal Rates and Code Section 7520 Rate for August 2018

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The applicable federal rates (**AFRs**) under Internal Revenue Code (**Code**) Section 1274(d) and the Code Section 7520 rate (**7520 rate**) for a particular month are published by the Internal Revenue Service (**IRS**) in a Revenue Ruling that is released around the 18th day of the immediately preceding month. Advance knowledge of the rates for the future month provides a window of opportunity for the quick or delayed implementation of income, gift, and estate-tax planning techniques in response to upward or downward trends. The effective implementation and management of interest-sensitive estate planning techniques also involves numerous other factors in addition to the relevant AFR or 7520 rate, including a client's particular circumstances, and should be undertaken with the advice of competent tax counsel and financial advisors.

The IRS has issued Revenue Ruling 2018-21, which provides the AFRs and 7520 rate for **August 2018**.

What is the Applicable AFR? The applicable AFR is the minimum acceptable or safe-harbor interest rate that must apply to loans between related parties (**intra-family loans**) to avoid adverse income or gift-tax consequences — based on the month in which the loan is made, how frequently interest is compounded, and the length or term of the loan.

AFRs Trending Up. While AFRs have been trending up since the beginning of 2018, and the short-term AFRs have again inched up — making intra-family loans and installment sales to grantor trusts generally less attractive — the mid-term and long-term rates have decreased slightly in August 2018.

2018 AFRs. The AFRs for January through July 2018 are as follows, in reverse chronological order:

AFR	ANNUAL	SEMI-ANNUAL	QUARTERLY	MONTHLY
Short-Term AFRs – For demand notes and notes with a term of three years or less.				
August 2018	2.42%	2.41%	2.40%	2.40%
July 2018	2.38%	2.37%	2.36%	2.36%
June 2018	2.34%	2.33%	2.32%	2.32%
May 2018	2.18%	2.17%	2.16%	2.16%
April 2018	2.12%	2.11%	2.10%	2.10%
March 2018	1.96%	1.95%	1.95%	1.94%

February 2018	1.81%	1.80%	1.80%	1.79%
January 2018	1.68%	1.67%	1.67%	1.66%
Mid-Term AFRs – For notes with a term in excess of three years but no greater than nine years.				
August 2018	2.80%	2.78%	2.77%	2.76%
July 2018	2.87%	2.85%	2.84%	2.83%
June 2018	2.86%	2.84%	2.83%	2.82%
May 2018	2.69%	2.67%	2.66%	2.66%
April 2018	2.72%	2.70%	2.69%	2.68%
March 2018	2.57%	2.55%	2.54%	2.54%
February 2018	2.31%	2.30%	2.29%	2.29%
January 2018	2.18%	2.17%	2.16%	2.16%
Long-Term AFRs – For notes with a term in excess of nine years.				
August 2018	2.95%	2.93%	2.92%	2.91%
July 2018	3.06%	3.04%	3.03%	3.02%
June 2018	3.05%	3.03%	3.02%	3.01%
May 2018	2.94%	2.92%	2.91%	2.90%
April 2018	3.04%	3.02%	3.01%	3.00%
March 2018	2.88%	2.86%	2.85%	2.84%
February 2018	2.66%	2.64%	2.63%	2.63%
January 2018	2.59%	2.57%	2.56%	2.56%

Note that the “**blended annual rate**” under Code Section 7872(e)(2)(A) may be used to determine the interest on a demand loan (i.e., a loan which can be called in at any time) with a fixed principal amount outstanding for an entire year.

What is the 7520 Rate? The 7520 rate for the month in which a lifetime gift or testamentary transfer occurs is used to determine the gift or estate-tax value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest. In the case of a charitable life estate or remainder, however, the 7520 rate for the month in which the lifetime gift or testamentary transfer occurs or a rate for either of the two preceding months may be used to determine its income, gift, or estate-tax value. The 7520 rate is equal to 120 percent of the applicable mid-term rate using semi-annual compounding, adjusting the resulting rate to produce an equivalent yield for annual compounding, and then rounding it to the nearest two-tenths of a percent.

7520 Rate Trending Up. The 7520 rate has increased since the beginning of 2018 — making planning techniques like qualified personal residence trusts (**QPRTs**) and charitable remainder annuity trusts (**CRATs**) increasingly attractive. Conversely, grantor retained annuity trusts (**GRATs**) and charitable lead annuity trusts (**CLATs**) have become generally less attractive as a result of this upward trend – but has remained at 3.40 percent for several months.

2018 7520 Rates. The 7520 rates for January through August 2018 are as follows, in reverse chronological order:

7520 RATE

August 2018	3.40%
July 2018	3.40%
June 2018	3.40%
May 2018	3.20%
April 2018	3.20%
March 2018	3.00%
February 2018	2.80%
January 2018	2.60%

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