

McGuireWoods

IRS Scouting Report

Stanley M. Johanson Estate Planning Workshop

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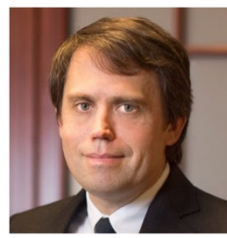
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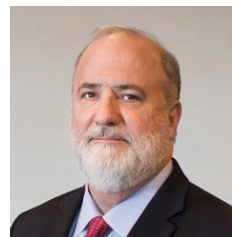
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IRS Scouting Report: Uncovering Tax Trends to Better Plan and Prepare

LEGISLATIVE AND REGULATORY DEVELOPMENTS.....1

1.	Update on IRS Funding (September 15, 2022).....	1
2.	Washington D.C. – Administrative Roundup	2
3.	Revenue Ruling 2022-18 (September 16, 2022).....	4
4.	REG-118913-21 – “Clawback” Proposed Regulations (April 27, 2022)	7
5.	REG-105954-20 – SECURE Act Proposed Regulations (February 24, 2022)	8
6.	General Explanations of the Administration’s Fiscal Year 2023 Revenue Proposals (Reported November 3, 2021 and Amended November 4, 2021)	10
7.	Legislation Affecting the Transfer of Assets During Life and at Death Introduced in the 117th Congress	12
8.	Revenue Procedure 2021-45 (November 10, 2021)	14
9.	2021-2022 Priority Guidance Plan (September 13, 2021).....	17
10.	New Treas. Reg. § 300.13 TD 9957, RIN 1545-BP75 (September 27, 2021)	18
11.	Corporate Transparency Act (2021).....	19
12.	IRS Data Book Statistics for Fiscal Year 2020 (October 2021).....	21

MARITAL DEDUCTION.....25

13.	Revenue Procedure 2022-32 (July 8, 2022).....	25
14.	<i>Kucerak v. United States</i> , No. 5:22-cv-00007 (W.D. Tex) (January 7, 2022)	26
15.	Letter Ruling 202133010 (Issued April 8, 2021; Released August 20, 2021)	28
16.	<i>Estate of Grossman v. Commissioner</i> , T.C. Memo 2021-65 (May 27, 2021)	29
17.	Letter Ruling 202120004 (Issued September 10, 2020; Released May 21, 2021)	30
18.	Letter Ruling 202115002 (Issued November 3, 2020; Released April 16, 2021)	31

GIFT TAX31

19.	ILM 202152018 (October 4, 2021, Released 12/30/2021)	31
20.	<i>Smaldino v. Commissioner</i> , T.C. Memo 2021-127 (2021)	32

21.	Letter Ruling 202116001 (Issued July 9, 2020; Released April 23, 2021)	34
22.	<i>Cavallaro v. Commissioner</i> , T.C. Memo 2014-189; 842 F.3d 16 (1st Cir. 2016), aff'g in part, rev'g in part and remanding; and T.C. Memo 2019-144	35
23.	Revenue Procedure 2021-3, 2021-1 IRB 140 (January 4, 2021)	37
24.	<i>James C. Nelson v. Commissioner</i> , T.C. Memo 2020-81	40
25.	<i>Grieve v. Commissioner</i> , T.C. Memo 2020-28	42
26.	<i>Estate of Mary P. Bolles v. Commissioner</i> , T.C. Memo 2020-71	45
27.	<i>Burt Kroner v. Commissioner</i> , T.C. Memo 2020-73	46
ESTATE TAX (AND ESTATE INCLUSION)		47
28.	<i>Wildenstein v. Commissioner (April 20, 2022)</i>	47
29.	<i>Estate of Stanley E. Fulton v. Commissioner (April 4, 2022)</i>	48
30.	<i>Estate of Marion Levine v. Commissioner (U.S. Tax Court, February 28, 2022)</i>	49
31.	<i>In re Jill Petrie St. Clair Trust Reformation</i> , 464 P.3d 326 (Kan. 2020).....	51
32.	<i>Badgley v. United States</i> , 957 F.3d 969 (9th Cir. 2020).....	52
33.	<i>Estate of Clara M. Morrisette v. Commissioner</i> , T.C. Memo 2021-60	54
34.	<i>Cahill v. Commissioner</i> , T.C. Memo 2018-84; settled, Joint Stipulation of Settled Issues, Tax Court Docket 10451-16 (August 16, 2018)	60
35.	<i>Estate of Frank D. Streightoff v. Commissioner</i> , 954 F.3d 713 (5th Cir. 2020)	62
36.	<i>Estate of Howard V. Moore v. Commissioner</i> , T.C. Memo 2020-40 and <i>Estate of Howard V. Moore v. Commissioner</i> No. 20-7303 (9th Cir. 2021) (not for publication).....	65
37.	<i>Estate of Michael J. Jackson v. Commissioner</i> , T.C. Memo 2021-48	73
CHARITABLE GIFTS.....		76
38.	<i>Estate of Warne v. Commissioner</i> , T.C. Memo 2021-17	76
39.	<i>Hoffman Properties II, LP v. Commissioner</i> , No. 19-1831, 2020 WL 3839687 (6th Cir. 2020)	78
40.	<i>Village at Effingham v. Commissioner</i> , T.C. Memo 2020-102; <i>Riverside Place LLC v. Commissioner</i> , T.C. Memo 2020-103; <i>Maple Landing, LLC v. Commissioner</i> , T.C. Memo 2020-104; and <i>Englewood Place, LLC v. Commissioner</i> , T.C. Memo 2020-105.....	79
41.	<i>Dickinson v. Commissioner</i> , T.C. Memo 2020-128	81
GENERATION-SKIPPING TRANSFER (“GST”) TAX.....		83
42.	Letter Ruling 202239003 (September 30, 2022)	83

43.	Private Letter Ruling 202206008 (November 3, 2021, Released February 11, 2022)	84
44.	Letter Rulings 202116002, 202116003, and 202116004, (Issued July 13, 2020; Released April 23, 2021)	85
45.	Letter Ruling 202120003 (Issued October 22, 2020; Released May 21, 2021)	86
46.	Letter Rulings 202107001 and 202107002 (Issued June 30, 2020; Released February 19, 2021).....	87
47.	Letter Rulings 202117002 and 202117003 (Issued July 14, 2020; Released April 30, 2021)	88
48.	Letter Ruling 202133008 (Issued April 16, 2021; Released August 20, 2021)	89
49.	Letter Ruling 202133007 (Issued April 2, 2021; Released August 20, 2021)	89
50.	Letter Ruling 202116006 (Issued August 26, 2020; Released April 23, 2021)	90
51.	Letter Ruling 202117001 (Issued July 14, 2020; Released April 30, 2021)	90
52.	Letter Ruling 202133006 (Issued March 3, 2021; Released August 20, 2021)	91
	FIDUCIARY INCOME TAX	92
53.	T.D. 9918 (September 21, 2020).....	92
	OTHER ITEMS OF INTEREST	94
54.	<i>Sander v. Comm'r of Internal Revenue</i> , T.C. Memo 2022-103 (October 6, 2022)	94
55.	<i>Busch v. Commissioner (U.S. Tax Court, No. 14085-20S)</i>	95
56.	<i>CCA 202202011 (January 14, 2022)</i>	96
57.	Letter Rulings 2021027003 (Issued September 11, 2020; Released February 19, 2021); 202115001 (Issued November 3, 2020; Released April 16, 2021); 202116005 (Issued July 6, 2020; Released April 23, 2021); 202120002 (Issued September 1, 2020; Released May 21, 2021); 202120007 (Issued October 21, 2020; Released May 21, 2021); 202134015 (Issued April 26, 2021; Released August 27, 2021)	97
58.	<i>Goodrich v. United States</i> , 3 F.4th 776 (5th Cir. 2021)	98
59.	<i>Khan v. United States</i> , No. 19-3920 (2d Cir. July 13, 2021).....	99
60.	<i>Shaffer v. Commissioner of Revenue</i> , 148 N.E.3d 1197 (Mass. 2020), <i>petition for writ of certiorari denied by United States Supreme Court</i> (November 9, 2020)	100
61.	Changes in State Death Tax Exemptions from 2020 to 2022	104
	APPENDIX	108

Trust and Estate Scouting Report: Uncovering Tax and Fiduciary Trends to Better Plan and Prepare¹

LEGISLATIVE AND REGULATORY DEVELOPMENTS

1. Update on IRS Funding (September 15, 2022)

Yellen outlines plan for increased IRS funding; targets taxpayer experience and fairness

With passage of the Inflation Reduction Act of 2022, Congress agreed to a significant increase in funding for the Internal Revenue Service. In total, the budget for the IRS will increase by nearly \$80 billion.

The following table provides the Short-, Mid-, and Long-Term AFR (for annual compounding) published in Revenue Ruling 2022-17.

IRS Funding Increases by Function	
Enforcement	+\$45.6 billion
Operations Support	+\$25.3 billion
Business System Modernization	+\$4.8 billion
Taxpayer Services	+\$3.2 billion
Other	+\$0.7 billion
Total	+\$79.6 billion

Source: <https://taxfoundation.org/inflation-reduction-act-irs-funding/>; Inflation Reduction Act of 2022, <https://www.democrats.senate.gov/07/27/2022/inflation-reduction-act-of-2022>.

On September 15, 2022, in a visit to an IRS facility, Secretary of the Treasury Janet Yellen laid out priorities for allocation of the increased budget.

- Treasury will fully staff the IRS Tax Assistance Centers, where individual taxpayers can get help at an in-person location. By adding resources, it will triple the number of taxpayers that can be served. In the last filing season, 900,000 Americans were helped in these Tax Assistance Centers. With increased funding, Treasury estimates that up to 2.7 million

¹ These materials are based on materials prepared by Andrea Chomakos, Charles D. Fox IV, Kristen Hager, Meghan Gehr Hubbard, Sean Murphy, Stephen W. Murphy, William I. Sanderson, and Farhan Zarou of McGuireWoods LLP.

Americans can be served. Yellen noted that one study suggests the average taxpayer spends 13 hours preparing and filing a return, compared to taxpayers in Sweden that can file returns by responding to a text message.

- The IRS will add 5,000 jobs at call centers. In earlier filing seasons, call centers averaged a 10%-15% “level of service,” meaning 2 of every 10 calls were answered. The additional funding will greatly improve this, and Treasury has set a minimum expectation to reach the 85% level of service. Treasury estimates that 5 times the number of calls will be answered. Yellen noted that on just one day, March 15, 2021, the IRS received 8.6 million phone calls.
- The funds allocated for business modernization will largely be allocated to digitizing the current manual processes. In many cases, IRS employees manually transcribe paper returns. For the next filing season, the IRS will scan paper returns, leading to fewer errors, faster processing, and faster refunds. In addition, the IRS will increase capability for taxpayers to engage with the IRS online, including responding to notices.
- Treasury will engage “industry-leading customer service experts from the private sector” to advise on modernization efforts and best practices.

In addition to updating the systems and processes, the IRS will dedicate increased budget resources to enforcement. Yellen addressed the “tax gap,” or the amount of tax that goes unpaid under current laws. Citing the Treasury Department studies, Yellen estimated taxes that will go uncollected over the next decade could be as high as \$7 trillion. To address this, Treasury will focus enforcement priorities on taxpayers with income over \$400,000. In addition to the increase of audits on high earners, the increased presence will address large, complicated corporate returns (averaging 6,000 pages/return) or partnerships (where one-third of the income is reported annually).

For more on the remarks delivered by Secretary Yellen and the statistics cited, see: https://home.treasury.gov/news/press-releases/jy0952#_ftnref10.

2. Washington D.C. – Administrative Roundup

This section provides headlines of interest to practitioners following IRS and Treasury administrative matters

- **June 28, 2022: IRS, Treasury Issue Guidance Under Section 2053 Regarding Deduction for Interest Expense and Amounts Paid Under a Personal Guarantee, Certain Substantiation Requirements, and Applicability of Present Value Concepts (REG-130975-08).** The proposed regulations provide guidance on the proper use of present-value principles in determining the amount deductible by an estate for funeral expenses, administration expenses, and certain claims against the estate. In addition, the proposed regulations provide guidance on the deductibility of interest expense accruing on tax and penalties owed by an estate, and interest expense accruing on certain loan

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