



Five-Minute Tax Briefing[®]

October 22, 2019

No. 2019-20

Highlights

2020 FICA Coverage Thresholds for Domestic Employees and Election Workers: For 2020, the Social Security Administration (SSA) has announced that cash wages paid by an employer for domestic service in the employer's private household is subject to FICA tax (often referred to as the *nanny tax*) if the amount of wages paid during the year is more than \$2,200. (This threshold applies separately to each household employee.) This is up from \$2,100 for 2019. In addition, the FICA coverage threshold for election workers has increased from \$1,800 (for 2019) to \$1,900. For more information, see www.ssa.gov/OACT/COLA/CovThresh.html

IRS Issues Additional Virtual Currency Guidance: The IRS has issued guidance on the federal income tax treatment of *hard forks* (protocol changes to cryptocurrency that result in a permanent diversion from the legacy distributed ledger) and *airdrops* (distributions of cryptocurrency to multiple taxpayers' distributed ledger addresses). According to the agency, a taxpayer doesn't have gross income as a result of a hard fork if he or she doesn't receive units of a new cryptocurrency. However, a taxpayer will recognize ordinary income as a result of an airdrop following a hard fork if he or she receives units of new cryptocurrency. The IRS also has published a list of Frequently Asked Questions (FAQs) that covers other virtual currency topics, such as methods for calculating and assigning cost basis, the tax consequences of a soft fork, and receiving virtual currency as a gift. The FAQs are available at www.irs.gov/individuals/international-taxpayers/frequently-asked-

questions-on-virtual-currency-transactions . Rev. Rul. 2019-24 . See NTA-1078 in this issue for more information.

New Payment Option for Those in Private Debt Collection Program:The IRS has announced that taxpayers in the private debt collection program can now make payments through a preauthorized direct debit. Taxpayers choosing this option must submit a signed written authorization to their assigned Private Collection Agency (PCA). The PCA will create a check according to the taxpayer's payment schedule made out to the U.S. Department of the Treasury. Then, the check will be securely mailed to the IRS within 24 hours. Taxpayers forgoing this option still can submit payments electronically via www.irs.gov/payments . The IRS warns taxpayers to watch out for scammers and identity thieves pretending to be from a PCA. The IRS only uses the following PCAs: CBE, Performant, Pioneer, and ConServe. News Release IR 2019-165.

Social Security Wage Base Increases for 2020:The Social Security Administration (SSA) has announced that the maximum earnings subject to the Social Security component of the FICA tax will increase from \$132,900 to \$137,700 for 2020. This means that for 2020, the maximum Social Security tax that employers and employees will each pay is \$8,537.40 (\$137,700 x 6.2%). The Medicare component remains 1.45% of all earnings, and individuals with earned income of more than \$200,000 (\$250,000 for married couples filing jointly, \$125,000 for married filing separately) will pay an additional 0.9% in Medicare taxes. Other 2020 cost-of-living adjustments announced by the SSA are available at www.ssa.gov/policy/docs/quickfacts/prog_highlights/RatesLimits2020.html . SSA Release 10/10/19.

Other Current Releases

Applicable Federal Rates for November:The Section 7520 rate for November 2019 is 2%, while the Applicable Federal Rates (AFRs) are as follows (Rev. Rul. 2019-25):

	Annual	Semiannual	Quarterly	Monthly
Short-term (≤ 3 years)	1.68%	1.67%	1.67%	1.66%
Mid-term (> 3 years but ≤ 9 years)	1.59%	1.58%	1.58%	1.57%
Long-term (> 9 years)	1.94%	1.93%	1.93%	1.92%

Income Tax—Final Regulations Restore Prior Rules on Allocating Partnership Liabilities:In October 2016, the IRS issued temporary, final, and proposed regulations on how liabilities are allocated under the partnership disguised sale rules. However, in Notice 2017-38, the IRS identified the temporary regulations as falling within President Trump's Executive Order on burdensome regulations. Therefore, in June 2018, the IRS issued proposed regulations that would remove the 2016 temporary regulations issued under IRC Sec. 707 and reinstate the prior rules under former Reg. 1.707-5(a)(2). Recently, the IRS issued final regulations (TD 9876) that adopt without change the 2018 proposed regulations. As such, the 2016 temporary regulations have been officially withdrawn, and the prior Section 707 regulations have been reinstated. The final

regulations apply to any transaction with respect to which all transfers occur on or after 10/4/19. Regs. 1.707-5 and 1.707-9.

Income Tax—IRS Issues Final Regulations on Bottom Dollar Payment Obligations:The IRS has released final regulations (TD 9877) on how bottom dollar payment obligations are treated under IRC Sec. 752 . Similar to temporary regulations issued in October 2016, the final regulations provide that bottom dollar payment obligations are ignored in determining whether a loan is recourse to a partner under IRC Sec. 752. The final regulations also revise the definition of a *bottom dollar payment obligation* to specifically address capital contribution obligations and deficit restoration obligations. In addition, the final rules retain the requirement that taxpayers disclose bottom dollar payment obligations on Form 8275 . When disclosing a payment obligation, taxpayers must state whether the obligation is a guarantee, a reimbursement, an indemnity, or a deficit restoration obligation. The final regulations generally apply to liabilities incurred or assumed by a partnership, and payment obligations imposed or undertaken with respect to a partnership liability, on or after 10/5/16. Regs. 1.704-1, 1.752-1, and 1.752-2.

Income Tax—IRS Issues Proposed Regulations on ABLE Account Contribution Limits:The IRS has issued proposed regulations (REG-128246-18) that clarify the contribution limits for Achieving a Better Life Experience (ABLE) accounts under IRC Sec. 529A. Thanks to the Tax Cuts and Jobs Act (TCJA), annual contribution limits were expanded to the lesser of (1) the compensation for the tax year of an employed or self-employed designated beneficiary or (2) an amount equal to the poverty line for a one-person household for the preceding calendar year. The proposed regulations reflect this change and also allow qualified ABLE programs to rely on a designated beneficiary's self-certification (made under penalties of perjury) that the contribution limit was not exceeded. The regulations are proposed to apply to tax years beginning after the date they are published as final. Until that time, taxpayers and qualified ABLE programs may rely on the proposed regulations. Prop. Regs. 1.529A-1 and -8.

Income Tax—Taxpayers May Rely on 2016 Proposed Regulations on Debt versus Equity:On 10/21/16, the IRS issued final and temporary regulations (TD 9790) on when to treat an interest in a corporation as debt or equity under IRC Sec. 385. On the same date, the IRS released proposed regulations (REG-130314-16) that cross reference the temporary regulations. Among other things, the regulations address documentation requirements and certain debt that is issued to a controlling shareholder in a distribution or other related-party transaction. Since the temporary regulations expired on 10/13/19, the IRS has announced that taxpayers may rely on the 2016 proposed regulations for periods following the expiration of the temporary regulations until further notice is given, provided that taxpayers consistently apply the rules in the 2016 proposed regulations in their entirety. Notice 2019-58.

IRS Releases New Version of PTIN Application and Renewal Form:The IRS has released a new version of Form W-12, which may be used by paid tax return preparers to obtain (or renew) a Preparer Tax Identification Number (PTIN). (A PTIN also may be obtained or renewed through the

IRS's online registration system.) The new version of the form contains a checkbox on line 11 that requires paid tax return preparers to acknowledge their data security responsibilities. By checking the box, practitioners confirm they are aware of their legal obligation to have a data security plan and to provide data and system security protections for all taxpayer information. Information on safeguarding taxpayer data can be found in IRS Publication 4557 . Form W-12, as well as information on PTIN requirements, can be accessed at www.irs.gov/tax-professionals/ptin-requirements-for-tax-return-preparers .

IRS Resumes Passport Revocation for Some Taxpayers: Thanks to the Fixing America's Surface Transportation (FAST) Act of 2015, the IRS is required to notify the State Department of taxpayers the IRS has certified as owing a "seriously delinquent tax debt" (IRC Sec. 7345). In July 2019, the IRS temporarily suspended passport certification procedures for anyone who had a case open with the Taxpayer Advocate Service (TAS). Since then, the agency has determined that a blanket, systemic exception for anyone with an open TAS case is overly broad and could undermine the effectiveness of the FAST Act to collect a seriously delinquent tax debt. Therefore, the IRS will resume passport revocation procedures for affected taxpayers. According to the IRS, the agency will continue to fairly and impartially oversee the certification process with the State Department to uphold the law while also respecting the rights of all taxpayers. For more information, see www.irs.gov/newsroom/update-on-passport-certifications-and-taxpayer-advocate-service .

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