



# Matter of Tax

## NEW FROM THE IRS: CONSERVATION EASEMENTS, THE APPEALS PROCESS & PER DIEM RATES FOR BUSINESS TRAVEL

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The IRS has issued final regulations that classify certain syndicated conservation easement (SCE) transactions as “listed transactions,” a designation that requires mandatory reporting to the IRS due to their abusive nature. This move aims to curb the misuse of these arrangements, which have long been scrutinized as part of the IRS’s “Dirty Dozen” tax schemes. For CPAs, understanding these changes is critical for advising clients who may be affected.

### **Understanding the Impact of Syndicated Conservation Easements**

Syndicated conservation easements have been a popular vehicle among investors seeking large charitable contribution deductions. Typically, participants acquire an interest in a partnership that owns real estate, which is then donated as a conservation easement. However, many of these transactions involve overvalued appraisals, leading to inflated deductions. The new regulations make it clear that these inflated deductions constitute abusive tax shelters, and participants must disclose their involvement in such transactions.

### **Reporting Requirements and Forms**

With the issuance of these final regulations, CPAs must ensure that their clients who have participated in certain SCE transactions comply

with the new reporting requirements. This includes filing Form 8886 (Reportable Transaction Disclosure Statement) and, for material advisors, Form 8918 (Material Advisor Disclosure Statement). These forms must be filed with the IRS to disclose participation in SCE transactions, including any completed in open taxable years.

The inclusion of these transactions as “listed” means that even those who previously believed they were compliant may need to revisit and report past transactions. Failure to do so could lead to audits, penalties, and further scrutiny from the IRS.

### **Legal Precedents and the IRS’s Success in the Courts**

The IRS has been active in challenging inflated valuations in syndicated conservation easement transactions, and the courts have generally ruled in its favor. These rulings have led to significant reductions in claimed deductions to reflect the true market value of the donated easements. In many cases, taxpayers have faced steep penalties for their participation in these schemes.

The IRS’s success in the courts has bolstered its approach, making it clear that inflated valuations will not stand. For CPAs, this reinforces the importance of ensuring that any conservation easement valuations reflect fair market value and

that they steer clients away from transactions that could be viewed as aggressive or non-compliant.

### **Implications for CPAs: Protecting Clients and Upholding Compliance**

The IRS's final regulations underscore the agency's commitment to protecting the tax system from abuse through heightened scrutiny of syndicated conservation easements. For CPAs, this means a dual responsibility: ensuring that clients understand their obligations under the new regulations and advising against participation in questionable conservation easement deals.

Some key considerations for CPAs include:

1. **Client Review and Disclosure:** Review past SCE transactions with clients to determine if disclosure is required under the new regulations. Any previously completed transactions in open taxable years should be evaluated for compliance.
2. **Accurate Valuations:** Emphasize the importance of obtaining accurate, third-party appraisals that reflect true market value. The IRS's focus on inflated valuations makes this a critical area of compliance.
3. **Documentation and Compliance:** Ensure that all necessary documentation, including appraisals and the rationale for deductions, is thoroughly maintained in client records. Proper documentation can help in case of an IRS audit.
4. **Advising Caution in Future Transactions:** Advise clients to exercise caution when presented with opportunities to participate in syndicated conservation easements, especially those marketed as a way to obtain significant tax savings.

### **A New Era of Scrutiny for Syndicated Conservation Easements**

The IRS's final regulations signal a significant shift in the treatment of certain syndicated conservation easements, designating them as abusive transactions that require reporting. CPAs play a crucial role in helping clients navigate this new landscape, ensuring compliance with disclosure requirements and avoiding potential pitfalls.

With the IRS's focus on curbing abusive tax shelters and its success in the courts, it's more important than ever for CPAs to provide clear guidance to clients about the risks of participating in syndicated conservation easements. By staying informed and proactive, CPAs can help their clients mitigate risks and maintain compliance with the evolving tax regulations.

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### **IRS LAUNCHES PILOT PROGRAM TO IMPROVE COMMUNICATION WITH LARGE CORPORATIONS DURING THE APPEALS PROCESS**

In a move aimed at enhancing efficiency and transparency, the IRS has launched a new pilot program designed to simplify communication for large businesses engaged in the appeals process. This initiative is particularly significant for companies with complex tax matters that require multiple representatives to manage their appeals cases.

#### **The New Pilot Program: Secure Messaging and Corporate Group Mailboxes**

Starting from September 30, 2024, through March 31, 2025, the IRS Independent Office of Appeals is testing a new feature called "corporate group mailboxes."

This initiative allows eligible businesses to set up a dedicated, secure digital communication channel for interacting with IRS Appeals employees.

These group mailboxes are available to large corporations with multiple authorized representatives handling an open appeals case, making the process of managing communications with the IRS more streamlined and efficient.

### Key Benefits of the Corporate Group Mailbox

The IRS aims to deliver several benefits through this program, including:

- 1. 24/7 Access to Secure Messaging:** Businesses will have around-the-clock access to a secure digital platform, ensuring that they can exchange information and communicate with Appeals at their convenience. This is particularly advantageous for companies operating across different time zones or with complex case needs.
- 2. Streamlined Communication for Multiple Representatives:** One of the most significant advantages is the centralization of communication through a group mailbox. This feature allows multiple authorized representatives of a company to access and contribute to ongoing discussions with the assigned Appeals employee. It simplifies coordination among legal, tax, and finance teams, ensuring everyone is on the same page.
- 3. Enhanced Security and Records Sharing:** Secure messaging through the corporate group mailbox also offers a safer way to share sensitive records and documentation required during the appeals process. This ensures compliance with data privacy standards and minimizes the risks associated with traditional communication methods like email.

- 4. Faster Case Resolution:** By facilitating easier and more efficient communication, the pilot program aims to expedite the resolution of appeals cases. Quick access to the assigned Appeals employee and a more organized flow of information can help prevent delays, benefiting both the IRS and businesses.

### How to Access the Corporate Group Mailbox

The process to set up a corporate group mailbox requires coordination with the assigned Appeals employee. While the system is not fully automated yet, businesses with open appeals cases are encouraged to inquire about their eligibility for this program. If eligible, the Appeals employee can help establish the group mailbox, allowing for improved communication throughout the appeals process.

### What This Means for Large Corporations

For business owners and executives, the IRS's new pilot program represents an important step towards simplifying the often complex appeals process. It signals a commitment by the IRS to modernize its services and cater to the unique needs of larger taxpayers. Here's what business leaders should consider:

- **Improved Efficiency:** The ability to communicate through a centralized, secure platform can save time and reduce the administrative burden often associated with managing a tax appeal. This can lead to more efficient case management and potentially quicker resolutions.
- **Better Coordination Among Advisors:** Large corporations typically involve multiple departments and external advisors, such as legal counsel and tax consultants, in appeals cases. The corporate group mailbox allows all representatives to access the same information, fostering better collaboration and ensuring that responses to IRS inquiries are timely and consistent.

- **Preparation for Future IRS Digital Initiatives:** The pilot program is part of the IRS's broader strategy to expand its online tools and improve user experiences for both individual and business taxpayers. Engaging with this pilot could position businesses to benefit from future digital enhancements and stay ahead of compliance trends.

## A Welcome Change for Business Taxpayers

The IRS's pilot program to introduce corporate group mailboxes is a promising development for large businesses involved in the appeals process. It reflects a shift toward digital modernization and a more collaborative approach to resolving complex tax matters. For business owners and executives, this initiative presents an opportunity to engage more efficiently with the IRS and improve the overall experience of navigating tax disputes.

As the program evolves, business leaders should stay informed about its progress and consider taking advantage of this new communication tool to ensure a smoother appeals process. Engaging early and leveraging the benefits of secure digital communication can make a significant difference in managing interactions with the IRS.

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## NEW IRS PER DIEM RATES FOR BUSINESS TRAVEL: WHAT BUSINESS OWNERS NEED TO KNOW

Effective October 1, 2024, the IRS has updated the per diem rates used to calculate tax deductions for business travel expenses. The new rates are set at \$319 for travel to high-cost locations and \$225 for travel to low-cost areas. Understanding these

changes is crucial for business owners looking to maximize deductions and simplify travel expense tracking.

## What Are Per Diem Rates and How Do They Work?

Per diem rates provide a standardized way to calculate travel expenses for lodging, meals, and incidental expenses when employees travel for business. Instead of maintaining detailed records of each expense, businesses can use these rates to streamline expense reporting, making it easier to comply with IRS requirements.

Using per diem rates is not mandatory. Business owners can still choose to track actual expenses if they maintain detailed records, but the per diem method offers a simpler way to calculate deductions without needing to save every receipt.

## Key Updates for 2024-2025 Per Diem Rates

Notice 2024-68, published by the IRS on September 20, outlines the updated per diem rates for the period from October 1, 2024, to September 30, 2025:

- **High-Cost Locations:** The new per diem rate is \$319, up from \$309.
- **Low-Cost Locations:** The new rate is \$225, up from \$214.
- **Meal Allowances:** The portion of the high-cost rate designated for meals is \$86, while the meal rate for low-cost areas is \$74.

## Special Rates for the Transportation Industry

For businesses in the transportation industry, special per diem rates apply to reflect the unique travel demands of this sector:

- **Meals and Incidental Expenses (M&IE) Rate:** For travel within the continental U.S. (CONUS), the new rate is \$80 per day, up from \$69. For locations outside the continental U.S. (OCONUS), the rate is \$86, up from \$74.

- **Incidental Expenses Only:** The rate remains at \$5 per day, regardless of the location.

### High-Low Substantiation Method

The IRS allows a high-low substantiation method, which simplifies expense calculation by providing a flat rate for high-cost and low-cost areas. Under this method:

- **High-Cost Locality Rate:** \$319 per day.
- **Low-Cost Locality Rate:** \$225 per day.

This method can be advantageous for businesses that frequently send employees to high-cost cities, as it simplifies record-keeping and ensures compliance with IRS rules.

### Why These Updates Matter for Business Owners

The updated per diem rates impact how businesses can deduct travel expenses, offering an opportunity for simplification and potentially more accurate expense management. Key considerations include:

1. **Streamlined Record-Keeping:** By using per diem rates, businesses can reduce the burden of maintaining detailed records of actual travel expenses. This can save time and administrative effort, allowing for a more straightforward tax filing process.
2. **Increased Deduction Potential:** With higher rates for 2024-2025, businesses may be able to claim larger deductions for travel expenses, especially for trips to high-cost areas. This can translate into tax savings that directly impact a company's bottom line.
3. **Strategic Planning for Travel Budgets:** Business owners can use these updated rates to plan travel budgets for the upcoming year more accurately. By factoring in the increased per diem rates, companies can better manage expenses and ensure that travel policies align with IRS guidelines.

4. **Special Considerations for the Transportation Industry:** Companies in the transportation industry should take note of the updated M&IE rates, as they are specifically designed to accommodate the unique needs of employees who spend significant time on the road. These special rates can simplify compliance and optimize deductions for travel-heavy operations.

### How to Implement the New Per Diem Rates

To take advantage of the updated rates, business owners should review their travel reimbursement policies and communicate the changes to employees. Here's a step-by-step approach:

- **Review Travel Policies:** Update internal travel policies to reflect the new rates for high-cost and low-cost locations. Make sure that all relevant personnel are aware of the changes and understand how to apply them.
- **Inform Employees:** Provide clear guidance to employees on how to calculate per diem allowances for business travel. This includes specifying the appropriate rate based on the travel location and clarifying any documentation requirements.
- **Consult with a Tax Professional:** If you're unsure about how the new rates apply to your business or if you have specific questions regarding compliance, consult with a CPA or tax advisor. They can help ensure that your business is taking full advantage of the available deductions while maintaining compliance with IRS rules.

### Make the Most of the New Per Diem Rates

The IRS's updated per diem rates for 2024-2025 offer an opportunity for businesses to simplify travel expense reporting and potentially increase tax deductions.

By understanding the new rates and integrating them into their travel policies, business owners can

improve their expense management processes and ensure compliance with the latest IRS guidelines.

As the new rates take effect on October 1, now is the time for businesses to prepare. By updating travel policies and staying informed, business owners can make the most of this opportunity and keep their travel-related tax deductions in top shape.

## TAXES & DEDUCTIONS

Understanding the difference between deductions and credits is crucial for effective tax planning. While they are often discussed together, they serve distinct purposes. A deduction reduces your income subject to tax, while a credit directly reduces the tax you owe.

### Standard Deduction Amounts

2024 Official Annual Adjustments

Filing Status	Standard Deduction Amount
Single	\$14,600
Married Filing Jointly & Surviving Spouses	\$29,200
Married Filing Separately	\$14,600
Heads of Household	\$21,900

Table: Kelly Phillips Erb • Source: IRS Rev. Proc. 2023-34 • Created with Datawrapper

### The Basics of Deductions and Credits

**Deductions:** A deduction lowers your taxable income. For example, if you are a single filer with \$11,000 of taxable income, the federal income tax due on that income in 2024 would be \$1,100 (10% of \$11,000). A \$1,000 deduction would reduce your taxable income to \$10,000 (\$11,000 - \$1,000), resulting in a tax due of \$1,000 (10% of \$10,000). This yields a tax savings of \$100.

**Credits:** A credit reduces the amount of tax you owe. Using the same example, if you have a \$1,000 credit instead of a deduction, your federal income tax due would decrease to \$100 (\$1,100 -

\$1,000), resulting in a tax savings of \$1,000.

Because credits directly reduce your tax liability, they are typically more valuable than deductions.

## The Importance of Deductions

Despite credits generally offering more significant tax savings, deductions are still highly beneficial. They come in various forms and are scattered throughout your tax return. The most commonly recognized deductions are itemized deductions, which include:

- **Medical Expenses:** Costs for medical care that exceed a certain percentage of your income.
- **State and Local Taxes (SALT):** Includes state and local income, sales, and property taxes.
- **Home Mortgage Interest:** Interest paid on a qualified home loan.
- **Charitable Contributions:** Donations made to qualified charitable organizations.

## How to Claim Deductions

To claim itemized deductions, you must itemize them on your tax return. This means listing each deduction separately, typically on Schedule A, if the total exceeds the standard deduction for your filing status.

## Standard Deduction for 2024

For the 2024 tax year, the standard deduction amounts are as follows:

- **Individuals and Married Couples Filing Separately:** \$14,600
- **Married Couples Filing Jointly:** \$29,200
- **Heads of Household:** \$21,900

Additionally, there is an extra standard deduction for the elderly or blind, which is \$1,550 per person. For a qualifying couple, this amounts to \$3,100 (\$1,950 for unmarried taxpayers).

While both deductions and credits can reduce your tax liability, they do so in different ways. Deductions lower your taxable income, while credits directly reduce the tax you owe. Understanding these differences and knowing how to claim the appropriate deductions and credits can significantly impact your tax return. Always consider consulting a tax professional to maximize your tax benefits and ensure compliance with tax laws.

## **YOUR FINANCIAL ADVISOR**

*Working with a financial advisor can be crucial in navigating the complexities of modern financial planning, especially as tax regulations and economic policies continue to evolve. A professional advisor offers personalized strategies that help individuals and business owners maximize their wealth, optimize their tax positions, and mitigate risks. One of the key benefits is staying ahead of frequent IRS changes that impact a wide range of tax scenarios.*

*From high-net-worth individuals to small business owners, everyone can benefit from guidance on new rulings, deductions, and compliance requirements. With expert insight, an advisor can help you strategically plan for retirement, manage investments, and create estate plans that align with both short-term and long-term financial goals.*

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