**NICHOLS PATRICK WEEKLY TAX UPDATE**

**With E. Lynn Nichols, CPA**

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1. **Maximum Values of Employer-Provided Vehicles for 2014**

(Notice 2014-11; 2014-13 IRB 880)

The IRS has announced the maximum value of employer-provided vehicles first made available to employees for personal use in 2014 for which the vehicle cents-per-mile valuation rule or the fleet-average valuation rule may be applicable.

1. **Passive Activity Properly Treated as an Insurance Business**

(LTR 201412001)

The IRS ruled that the passive investment activities of a life insurance company's subsidiary are properly treated as an insurance business following a check-the-box election and, accordingly, the income and expenses should be included when computing life insurance company taxable income.

1. **Lawsuit Settlement Liabilities Were Deductible Business Expenses**

(LTR 201412002)

The IRS ruled that liabilities, including legal fees and other expenses, incurred by a corporation to settle a lawsuit stemming from alleged securities law violations are deductible as ordinary and necessary business expenses under section 162 because the acts that gave rise to the litigation were performed in the ordinary conduct of business.

1. **Countries for Which Income Exclusion Requirements Are Waived**

(Rev. Proc. 2014-25; 2014-15 IRB 1

The IRS has listed Egypt, Lebanon, Pakistan, and Yemen as countries for which the foreign earned income exclusion eligibility requirements of section 911(d)(1) are waived for the 2013 tax year.

1. **Supreme Court Reverses Sixth Circuit in *Quality Stores*, Severance Payments Subject to FICA Taxes**

(United States v. Quality Stores Inc. et al.; S CT; No. 12-1408

The Supreme Court, in a unanimous opinion, reversed the Sixth Circuit and held that severance payments Quality Stores made to terminated employees are taxable wages for FICA purposes, finding that section 3402(o) regarding income tax withholding does not alter FICA's broad definition of wages.

1. **Guidance on Application of Tax Principles to Virtual Currency Transactions**

(Notice 2014-21; 2014-16 IRB 1; 3/25/2014)

The IRS has issued guidance in the form of frequently asked questions on the application of existing general tax principles to transactions using virtual currency, explaining that virtual currency is not treated as currency that could generate foreign currency gain or loss for U.S. federal tax purposes.

1. **Trust Materially Participated in Real Property Business, Qualifies for Passive Activity Exception**

(Frank Aragona Trust et al.; 142 T.C. No. 9; No. 15392-11; 3/27/2014)

The Tax Court held that a residuary trust qualified for the section 469(c)(7) exception for rental activities, finding that the trust was capable of performing personal services through its individual trustees, that it materially participated in a real property trade or business, and that its rental activities were not passive.

[Doc 2014-7430]