

Basswood Counsel is dedicated to keeping our clients and followers well-informed. We publish regular updates and quarterly newsletters to share the latest industry insights and key updates from our team.



Basswood this Quarter

It's Official!

Basswood Counsel, formerly known as Klug Counsel, has officially launched, celebrating with an event on October 1, 2024, that included an in-person lunch and a webinar titled “**AI Integration in Legal Practice**”. The event was attended by a range of attorneys, professionals, and entrepreneurs.

Basswood’s co-founders expressed excitement about the firm’s launch, emphasizing their commitment to client satisfaction and high-quality service.



During the webinar, presenters Jephte Lanthia, Chris Klug, Meg Charles and Haz Mugwagwa, highlighted the practical uses, benefits, and challenges of AI in the legal space.

Basswood Counsel joins the Global Chamber Baltimore/Washington region



Chris Klug and Mi Jeong Hibbitts, MBA, Executive Director of the Global Chamber.

Basswood Counsel has joined the Global Chamber Baltimore/Washington region, enhancing opportunities for collaboration and growth. The Global Chamber supports business growth through networking and information-sharing. This membership connects Basswood Counsel with a diverse network of global professionals, allowing the firm to serve international businesses more effectively and contribute to the legal industry’s advancement.

Global Integra International Conference Recap

Chris Klug recently attended the Global Integra International Conference held in Paris on October 24 – 25. Integra International is an international association of accountants, legal advisors, and business advisors. The conference



was well attended by Integra International members with more than 120 participants from around the world.

The Paris Conference provided excellent educational content including business valuation, data analytics, AI in professional practices, business succession planning, and sustainability implications in various industries and around the world. The conference was collaborative among the participants with top professionals from around the world sharing their experiences with the relevant topics. Integra International provides a global learning and development opportunity to our firm that most other firms do not have the opportunity to experience, this is an undeniable advantage for Basswood Counsel.

The Paris Conference also allowed Basswood Counsel to strengthen connections with Integra member firms and to create new connections with Integra member firms from around the world. The members of Integra International are exceptional professionals and more importantly people who we are lucky to be connected with. It is not all about learning at



the conference, there is a family-like connection between the attendees including many attendees bringing their spouse and children.

The 2024 Global Integra International Conference was a tremendous success that Basswood Counsel was privileged to attend. We look forward to strengthening our global services through Integra International to better serve the needs of our clients.

Resource Hub

Beneficial Ownership Information registration deadline approaching

The Beneficial Ownership Information (**BOI**) requirements were promulgated under the Corporate Transparency Act (the **CTA**) and are administered by the Financial Crimes Enforcement Network (**FinCEN**). Under the BOI requirements, which aim to combat the growing concerns of money laundering and financing of terrorism, entity beneficiaries are required to register and report entity state registration and beneficial ownership information.

Entities that were registered or formed prior to January 1, 2024 shall have until January 1, 2025 to complete their BOI registration.

For more information about the BOI rules and deadlines, read more here:

[About Beneficial Ownership Information Regime](#)
[Fincen Notice - BOI Registration and Deadlines](#)



Extended Tax Deadline Reminder for Nonresident Aliens, US Citizens and Resident Aliens Abroad

Nonresident Aliens who have filed Form 1040-NR and requested a 6-month extension on or before June 17, 2024 must file by December, 15 2024.

Nonresident Aliens who have filed Form 1040-NR and requested a 6-month extension on or before June 17, 2024 must file by December, 15 2024. US Citizens and Resident Aliens living abroad who successfully applied for the discretionary 2-month deadline extension by October 15, 2024 must file by December 15, 2024.

For more details read:

[About IRS 2-month Tax Deadline Extensions](#)

[About IRS 6-month Tax Deadline Extensions](#)

[About IRS Nonresident Alien Taxation](#)

Tax Relief for Hurricane Victims

Tax relief for individuals and businesses resident in parts of Florida (**Florida Residents**) that were affected by Hurricane Helene and Hurricane Debby. The Florida Resident taxpayers now have until May 1, 2025, to file various tax returns and make tax payments. This is inclusive of affected taxpayers with returns and payments with due dates that have been postponed until February 3, 2025.

Further details can be found here:

[IRS Tax Relief for Victims of Hurricanes](#)

[IRS Tax Relief for Hurricane Helene Victims](#)

Save the Date

December 2024

Basswood and Olive Consulting will be presenting on Economic Substance to Professional Advisors.

Restructuring the Family Office to Significantly Increase Assets in the Dynasty Trust

Almost all family offices have a structure that includes ownership of the family office partially through a dynasty trust for efficient estate and gift tax planning. The assets held in a dynasty trust are generation skipping transfer tax exempt and therefore the assets that are held in the dynasty trust are not subject to estate tax at each generational level, thus avoiding a haircut of wealth of 40 percent at each generation. The dynasty trust allows for the preservation of significant wealth to the family.

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Please visit our website to read the full article:

[Restructuring the Family Office to Significantly Increase Assets in the Dynasty Trust - Where Income Tax Planning Collides with Estate Tax Planning](#)



Around the World

Aroeste v United States – Sets Precedent Relating to the Tiebreaker Clause in United States–Mexico Tax Treaty

In *Aroeste v. United States*, the U.S. District Court of the Southern District of California held Mr. Aroeste is not liable for the penalties for alleged violation of the Report of Foreign Bank and Financial Accounts (**FBAR**) because he was a US Nonresident as determined by Article 4 of the United States–Mexico Tax Income Treaty (the **Treaty**) and therefore, was not required to file FBAR.

Background

Mr. Alberto Aroeste, a Mexican citizen and lawful U.S. permanent resident (**US Status**), had US Status since 1984, and his wife was a naturalized U.S. citizen. The couple primarily resided in Mexico and maintained a Florida vacation residence¹. For tax years 2012 and 2013 (the **Relevant Period**), Mr. Aroeste filed his US Tax returns with a status of “married filing jointly” but he did not file FBARs to disclose five financial accounts with an aggregate balance exceeding \$10,000 (the **Financial Accounts**) he held in Mexico. In 2016, Mr. Aroeste amended his tax returns to file as a U.S. nonresident with a status of “*married filing separately*”. He relied on the tie-breaker provisions of the Treaty, including Form 8833, Treaty-Based Return Position Disclosure for the claim.

In 2020, the U.S. Treasury assessed Mr. Aroeste for \$100,000 in penalties for not filing FBARs for the Relevant Period. Under the Bank Secrecy Act, the Financial Crimes Enforcement Network (**FinCEN**), requires US Persons² to file an FBAR each year if the aggregate value of all foreign accounts exceeds \$10,000 during the year. In response, Mr. Aroeste filed a lawsuit against the government, contending that he was not liable for the FBAR penalties because he was not a US Person under Article 4 of the Treaty.



Legal Review

The central question before the Court was whether Article 4 of the Treaty³ should govern whether a taxpayer has an FBAR reporting requirement. Article 4 provides rules to determine residency, when an individual is a resident of both countries. The first rule states that an individual is deemed a resident in the country of his permanent home, and where they have a home in both countries, the individual shall be deemed to be a resident of the country with which his personal and economic relations are closer, which is known as the center of vital interest test. The Government argued that Mr. Aroeste had waived his rights under the Treaty to be treated as a resident of Mexico because he did not: (i) notify the IRS timely by filing Form 8833 with his original, and (ii) tax return file Form 8854, Initial and Annual Expatriation Statement. The Court disagreed with this argument and ruled that Mr. Aroeste’s failure to file the relevant forms did not undermine his right to claim his treaty position.

Further, in interpreting Article 4(b) and the “*center of vital interest test*”, the Court held that



Mr. Aroeste was a resident of Mexico whose center of vital interest was Mexico. He lived with his wife in Mexico and spent most of his time there, and key aspects of his life such as voting and health services were conducted in Mexico. As such, he was not required to file the FBAR for the Relevant Period.

Potential Impact of Aroeste v. United States

This case has set a precedent for the treatment of the tiebreaker rules in the US tax treaties with foreign nations. Given that the US has more than 60 tax treaties, and many of which contain tiebreaker rules like the ones provided in Article 4 of the Treaty, this precedent has potential expansive effects.

¹ <https://casetext.com/case/aroeste-v-united-states-2>

² <https://www.fincen.gov/who-united-states-person>

³ <https://www.irs.gov/pub/irs-trty/mexico.pdf>

Community Roots

Making Impact: Basswood in the Community

Basswood is proud to have provided services to a local nonprofit pro bono for tax years 2021, 2022 and 2023. This local nonprofit is exempt from federal income tax under IRC section 501(c)(3) and classified as a public charity under IRC Section 509(a)(2).

Like any other tax-exempt organization in the US, they are required to file annual returns with the IRS. If they do not file a required return or files late, penalties may be assessed. In addition, if they do not file as required for 3 consecutive years, they automatically lose their tax-exempt status.

This local nonprofit asked Basswood to assist in the preparation and filing of Form 990, *Return of Organization Exempt from Income Tax*, a complex form and in most cases, an administrative burden for many small tax-exempt organizations.

According to the IRS, small tax-exempt organizations are those with annual gross receipts not greater than \$50,000 in the tax year. To facilitate the compliance process, these small tax-exempt organizations are eligible to file Form 990-N to satisfy their annual reporting requirement, which is more straightforward than the traditional Form 990.

After working with this local nonprofit, reviewing and analyzing their situation, the Basswood team was happy to determine that they fell into the small tax-exempt organizations, and therefore eligible to file Form 990-N (e-Postcard) for 2021, 2022 and 2023.



Counsel's Corner

AI & Legal Practice

by Hazvinei Mugwagwa

The legal profession is often depicted either as an unapproachable, stiff and otherwise rigid collection of humanoids or as disheveled, rambling reciters of riddles, when in fact it is a dynamic, vibrant, and engaged kaleidoscope of tech savvy practitioners. As an industry forever anchored in selling time packaged with accumulated knowledge, establishing and securing enduring competitive advantages and leverage is critical for survival in an otherwise low capital service business. Legal practitioners are natural consumers of technology, as it can provide leverage and comparative advantages. Technology acquisition and use in the legal profession has followed the broader economic trend from machines to software; spend on fax machines, copiers, blackberry servers has given way to eDiscovery software, cloud practice management software and document automation.

Artificial Intelligence and the emergence of ever more sophisticated software, including generative artificial intelligence, might represent the next source of leverage and competitive advantage for

the legal profession, a potentially empowering and disruptive force for practitioners. According to Wikipedia, Artificial Intelligence is generally defined as intelligence exhibited by machines and includes software that enables machines to perceive their environment and use learning and intelligence to take actions that maximize their chances of achieving defined goals. Today we are most familiar with tools like ChatGPT, which is a generative AI – artificial intelligence capable of generating text, images, videos, or other data using generative models, often in response to prompts. In its most dystopian application in the legal profession, instead of hiring a combination of associates and support staff, a lawyer would have software that is trained on the lawyer's body of work ready to receive prompts to prepare initial drafts of a memo, an agreement, and a letter for the lawyer to review, preferably after a 1-hour lunch following their afternoon workout. What more if their AI bot took its prompts based on the listening to all the lawyer's calls and reading all their correspondence?

Read the full article here: [AI & Legal Practice](#)

Heart Of Basswood

About Hazvinei Mugwagwa



Hazvinei Mugwagwa, Of-Counsel

In 2024, M&A and renewable energy projects have been the most active areas of my practice. In M&A, the transactions have been smaller and it is mostly strategic buyers, reflecting a market gripped with uncertainty and a less than optimistic economic outlook. As a result, clients have prioritized efficiency and experience across the entire transaction process, aligning with our hands on approach and my particular strength in spotting both legal and commercial issues. In addition, many M&A targets have been smaller enterprises without financial sponsors, our tax and wealth planning capabilities have stood out as an invaluable part of our task force approach for both acquirers and targets. The global interest rate hike cycle and green energy backlash of 2022–23 that

all but halted renewable energy financing, has in 2024 given way to increased activity in renewable energy finance, especially in the US and Sub-Saharan Africa. Project development and documentation activity has been frantic and several financing arrangements we actively advising are nearing signing and first disbursements. As the current transactions close, I fully expect to see a subsequent wave of new term sheets with lenders and other funders realizing the extent of activity, a coming shortage of high quality projects in both energy and infrastructure financing, and they seek to deploy capital at still attractive yields.