

New Applicable Federal Rates Benefit Family Loans

The IRS has announced its “applicable federal rates” for November 2010. These rates govern the minimum interest rates that can be charged on loans without the loans being treated as gifts. If you have an existing outstanding loan to a family member, you might consider modifying and extending the existing promissory note at the new lower interest rates. If you are considering a loan to family members these can be made at the new lower rates. The interest rates vary depending on the length of the term of the loan. For example, a loan for a term between 3 and 9 years could bear interest at 1.59%, without any danger of the loan being treated as a gift.

Applicable Federal Rates for 2010

(Current through November 2010)

These are some of the rates published each month by the Internal Revenue Service in accordance with section 1274(d) of the Internal Revenue Code.

The federal "[short-term rate](#)" is determined from a one-month average of the market yields from marketable obligations of the United States with maturities of 3 years or less. The "[mid-term rate](#)" is determined from obligations with maturities of more than 3 years but not more than 9 years, and the "[long-term rate](#)" is determined from obligations with maturities of more than 9 years.

These rates are used for a number of different purposes under the Internal Revenue Code, including the determinations of original issue discount and unstated interest and the gift tax and income tax consequences of below-market loans under section 7872. (However, interest on demand loans with a fixed principal amount outstanding for an entire year can be determined using the "[blended annual rate](#)" described in section 7872(e)(2)(A) of the Internal Revenue Code.)

Short-Term Rates for 2010				
Month	Annual	Semiann.	Quarterly	Monthly
Jan-2010	0.57%	0.57%	0.57%	0.57%
Feb-2010	0.72%	0.72%	0.72%	0.72%
Mar-2010	0.64%	0.64%	0.64%	0.64%
Apr-2010	0.67%	0.67%	0.67%	0.67%
May-2010	0.79%	0.79%	0.79%	0.79%
Jun-2010	0.74%	0.74%	0.74%	0.74%
Jul-2010	0.61%	0.61%	0.61%	0.61%
Aug-2010	0.53%	0.53%	0.53%	0.53%
Sep-2010	0.46%	0.46%	0.46%	0.46%
Oct-2010	0.41%	0.41%	0.41%	0.41%
Nov-2010	0.35%	0.35%	0.35%	0.35%

Mid-Term Rates for 2010				
Month	Annual	Semiann.	Quarterly	Monthly
Jan-2010	2.45%	2.44%	2.43%	2.43%
Feb-2010	2.82%	2.80%	2.79%	2.78%
Mar-2010	2.69%	2.67%	2.66%	2.66%
Apr-2010	2.70%	2.68%	2.67%	2.67%
May-2010	2.87%	2.85%	2.84%	2.83%
Jun-2010	2.72%	2.70%	2.69%	2.68%
Jul-2010	2.35%	2.34%	2.33%	2.33%
Aug-2010	2.18%	2.17%	2.16%	2.16%
Sep-2010	1.94%	1.93%	1.93%	1.92%
Oct-2010	1.73%	1.72%	1.72%	1.71%
Nov-2010	1.59%	1.58%	1.58%	1.57%

Long-Term Rates for 2010				
Month	Annual	Semiann.	Quarterly	Monthly
Jan-2010	4.11%	4.07%	4.05%	4.04%
Feb-2010	4.44%	4.39%	4.37%	4.35%
Mar-2010	4.35%	4.30%	4.28%	4.26%
Apr-2010	4.40%	4.35%	4.33%	4.31%
May-2010	4.47%	4.42%	4.40%	4.38%
Jun-2010	4.30%	4.25%	4.23%	4.21%
Jul-2010	3.94%	3.90%	3.88%	3.87%
Aug-2010	3.79%	3.75%	3.73%	3.72%
Sep-2010	3.66%	3.63%	3.61%	3.60%
Oct-2010	3.32%	3.29%	3.28%	3.27%
Nov-2010	3.35%	3.32%	3.31%	3.30%

Please contact any member of our firm's estate planning group with any questions you may have on this or other estate planning matters. William Haas, Chair ([212-735-8645](tel:212-735-8645)—bhaas@morrisoncohen.com), Jeffrey Lowin ([212-735-8750](tel:212-735-8750)—jlowin@morrisoncohen.com) and Karin Lundell ([221-735-8838](tel:221-735-8838)—klundell@morrisoncohen.com)

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