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Highlights

IRS Cracks Down on Abusive Syndicated Conservation Easements: The IRS has announced that it will significantly increase enforcement actions related to abusive syndicated conservation easements. According to the agency, coordinated examinations are being conducted across the Small Business and Self-Employed Division, the Large Business and International Division, and the Tax Exempt and Government Entities Division. In addition, investigations have been initiated by the Criminal Investigation Division. These actions cover billions of dollars of potentially inflated deductions, as well as hundreds of partnerships and thousands of investors. The IRS also is investigating promoters, appraisers, tax return preparers, and others involved in marketing abusive syndicated conservation easements. The agency reminds taxpayers that certain syndicated conservation easements are listed transactions and subject to substantial penalties. To avoid penalties, taxpayers should file an amended return that fully removes the improper contribution and related tax benefits. News Release IR 2019-182.

IRS Encourages Practitioners to Prepare for the 2020 Tax Season: The IRS is encouraging practitioners to take steps before the end of the year to prepare for the upcoming 2020 tax season. Practitioners should (1) renew their Preparer Tax Identification Numbers (PTINs); (2) update their power of attorney and other third-party authorization records; (3) review their information security plans and consult with cybersecurity experts regarding digital safeguards; (4) review Practitioner Priority Service (PPS) options; and (5) identify their local IRS stakeholder liaison. In addition,

practitioners should review their e-Services account to ensure all contact information is accurate and to add or remove users. New e-Services users must first register and verify their identities using Secure Access authentication. Also, firms opening new offices where electronic transmissions will occur must submit new e-file applications. News Release IR 2019-186.

IRS to Conduct Face-to-face Meetings with Noncompliant Taxpayers: The IRS has announced that agents will begin conducting face-to-face meetings with individuals and businesses with ongoing tax issues. These meetings will take place in areas with a limited number of available revenue officers due to declining IRS resources. According to the agency, the primary purpose of the meetings is to make contact with taxpayers with a previously known tax issue that wasn't resolved through the mail. Initial face-to-face contact will almost always be unannounced. The IRS cautions taxpayers that visits from revenue agents shouldn't be confused as a scam. When an agent visits a taxpayer, he or she will always provide two forms of official credentials with a serial number and a photo. Taxpayers have the right to see both of these credentials. For more information, see www.irs.gov/newsroom/special-irs-efforts-to-focus-on-tax-compliance-education-begin . Fact Sheet 2019-15.

Other Current Releases

Applicable Federal Rates for December: The Section 7520 rate for December 2019 is 2%, while the Applicable Federal Rates (AFRs) are as follows (Rev. Rul. 2019-26):

	Annual	Semiannual	Quarterly	Monthly
Short-term (≤ 3 years)	1.61%	1.60%	1.60%	1.59%
Mid-term (> 3 years but ≤ 9 years)	1.69%	1.68%	1.68%	1.67%
Long-term (> 9 years)	2.09%	2.08%	2.07%	2.07%

Health Care—Proposed Transparency Regulations for Health Insurers: The IRS has issued proposed regulations that would require group health plans and health insurance issuers in the individual and group markets to disclose (upon request) cost-sharing information to a participant, beneficiary, or enrollee (or his or her authorized representative), including an estimate of the individual's cost-sharing liability for covered items or services furnished by the provider. Insurers would be required to make such information available on a website and, if requested, through non-Internet means. In addition, the proposed rules would require plans and issuers to disclose in-network provider negotiated rates and historical out-of-network allowed amounts through two machine-readable files posted on a website. Amendments to the medical loss ratio program rules also have been proposed by the Department of Health and Human Services. The regulations are proposed to apply to plan years beginning on or after one year after the effective date of the final regulations. REG-118378-19.

Income Tax—Couple Could Exclude Gain on Principal Residence Turned Investment Property: The taxpayers, a married couple, converted their principal residence to a rental property.

After the property was destroyed by fire, the taxpayers received insurance proceeds and eventually sold the land on which the house was located. The IRS privately ruled that the Section 121 principal residence exclusion applied to the sale of the land. The excluded gain equaled the difference between the maximum limitation amount applicable to the taxpayers ($500,000) and the gain excluded under IRC Sec. 121 when the house was destroyed. In addition, the IRS concluded that the taxpayers held the property for investment for Section 1031 purposes. The fact that the taxpayers could exclude gain under IRC Sec. 121 on the sale of the property did not preclude them from deferring all or a portion of the remaining gain (if any) under IRC Sec. 1031. Ltr. Rul. 201944006.

IRS Advisory Council Releases 2019 Annual Report: As an advisory body to the Commissioner of the IRS, the IRS Advisory Council (IRSAC) provides an organized forum between IRS officials and representatives of the public for discussing relevant tax administration issues. Recently, the IRSAC released its 2019 annual report, which includes recommendations on over 20 tax-related issues. Among other things, the report addresses (1) accelerating the use of e-signatures in federal tax administration; (2) guidance relating to the Tax Cuts and Jobs Act (TCJA); (3) establishing safe harbors by relying on certain conclusions of independent parties; (4) broadening and improving a self-correction program for tax-exempt bonds; (5) improving customer experience and service delivery; and (6) requiring employees to submit a new 2020 Form W-4 by 10/1/20. The full report can be accessed at www.irs.gov/pub/irs-pdf/p5316.pdf . News Release IR 2019-187 .

IRS Provides Guidance to Auditors on Partial Building Dispositions: Under Reg. 1.168(i)-8(d)(2), taxpayers can elect to recognize partial dispositions of MACRS property, including portions of a building or one or more of its structural components. In a recent Process Unit, the IRS provided guidance to its auditors regarding the partial disposition election. Once an examiner determines there is a risk that the taxpayer failed to comply with reporting obligations, he or she must (1) determine if the taxpayer partially disposed of a building or one of its structural components; (2) identify which portion of the building or structural component the taxpayer disposed of; (3) identify the building that was partially disposed of and its placed-in-service date; (4) determine the adjusted basis of the disposed portion of the building to verify gain or loss; and (5) verify that the taxpayer reduced the adjusted basis of the remaining portion of the building to account for the partial disposition. For more information, see www.irs.gov/pub/irs-utl/dce_p_252_04_03.pdf .

Penalties—Trust Owner Can't Be Penalized as a Beneficiary for Late Filing: Anticipating a divorce from his wife, the taxpayer transferred approximately $9 million in U.S. Treasury bills to an overseas trust. (The taxpayer was the grantor and sole beneficiary of the trust.) After the divorce was final, he terminated the trust and transferred the assets back to his U.S. bank accounts. For the year at issue, the taxpayer was late in filing his Form 3520 (Annual Return to Report Transactions with Foreign Trusts and Receipt of Certain Foreign Gifts). Therefore, the IRS assessed a 35% late penalty under IRC Sec. 6048(c), which applies to trust beneficiaries. The taxpayer protested, claiming he was only subject to a 5% penalty under IRC Sec. 6048(b), which applies to trust grantors/owners. The U.S. District Court for the Eastern District of New York sided

with the taxpayer, holding that an individual can't be penalized as an owner *and* as a trust beneficiary. *Wilson, Emily* , 124 AFTR 2d 2019-XXXX (DC NY).

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