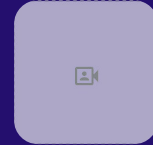




Current Federal Tax Developments

April 1, 2024

Kaplan Financial Education



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This Week We Look At:

Tax Court reverses position on validity of a regulation it had upheld four years ago

US Supreme Court hears oral arguments in case involving estate tax value of a corporation that received life insurance to redeem the majority shareholder's estate

IRS Criminal Investigation Divisions announces update on COVID relief related investigations and convictions

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<https://www.currentfederaltaxdevelopments.com>





Tax Court Reverses Prior Recent Holding on Validity of Regulation in Second Case



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- *Valley Park Ranch LLC et al. v. Commissioner*, 162 T.C. No. 6, March 28, 2024
 - Issue related to the use of proceeds if there is a judicial extinguishment of a conservation easement
 - *Oakbrook Land Holdings LLC v. Commissioner*, 154 T.C. 180 (2020) had held the regulations valid and that they had not violated the Administrative Procedures Act (sustained on appeal by the Sixth Circuit and Supreme Court denied review)
 - However, the Eleventh Circuit held to the contrary in *Hewitt v. Commissioner*, 21 F.4th 1336, 1353 (11th Cir. 2021)

<https://www.taxnotes.com/research/federal/court-documents/court-opinions-and-orders/conservation-easement-proceeds-rule-held-invalid-tax-court/7jcry>



Tax Court Reverses Prior Recent Holding on Validity of Regulation in Second Case



Photo by [Sebastian Unrau](#) on [Unsplash](#)

- *Valley Park Ranch LLC et al. v. Commissioner*, 162 T.C. No. 6, March 28, 2024
 - Majority argued that the Sixth Circuit had found *Oakbrook* did not require determining the validity of the regulation (something the government had argued)
 - Found had not responded to significant comments when the regulation was finalized

<https://www.taxnotes.com/research/federal/court-documents/court-opinions-and-orders/conservation-easement-proceeds-rule-held-invalid-tax-court/7jcry>



Supreme Court Hears Oral Arguments in Case Regarding Life Insurance and Corporate Valuation



Photo by [Claire Anderson](#) on [Unsplash](#)

- *Connelly v. United States*, US Supreme Court, Case No. 23-146, Oral arguments, March 27, 2024
 - Case involves life insurance paid to company on death of majority shareholder used to redeem shares
 - Did not meet the requirements in the regulations for this to be respected (related parties, didn't really follow the plan exactly, etc.)
 - Taxpayer argued the life insurance should be mainly offset by the liability to redeem the shares when valuing the corporation

https://www.supremecourt.gov/oral_arguments/audio/2023/23-146

https://www.supremecourt.gov/oral_arguments/argument_transcripts/2023/23-146_4h25.pdf

Supreme Court Hears Oral Arguments in Case Regarding Life Insurance and Corporate Valuation



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- *Connelly v. United States*, US Supreme Court, Case No. 23-146, Oral arguments, March 27, 2024
 - Eighth Circuit had agreed with the trial court that the liability should not be a consideration in the valuation - at odds with a similar Eleventh Circuit decision
 - Supreme Court agreed to hear the case
 - On oral arguments, the justices seemed concerned with what was seen as an untaxed windfall to his brother-went from minority owner to 100% control without investing any additional funds

https://www.supremecourt.gov/oral_arguments/audio/2023/23-146

https://www.supremecourt.gov/oral_arguments/argument_transcripts/2023/23-146_4h25.pdf



Supreme Court Hears Oral Arguments in Case Regarding Life Insurance and Corporate Valuation



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- *Connelly v. United States*, US Supreme Court, Case No. 23-146, Oral arguments, March 27, 2024
 - Taxpayers did point out that US GAAP requires treating such a redemption requirement as a liability, but justices did not seem interested in looking deeper at this
 - Also argued that the transfer to the brother was only tax deferred--if he sold the company he'd pay capital gains tax and would be taxable at his passing
 - Justices questioned why this hadn't been a cross purchase in which case there would be no issue

https://www.supremecourt.gov/oral_arguments/audio/2023/23-146

https://www.supremecourt.gov/oral_arguments/argument_transcripts/2023/23-146_4h25.pdf

IRS Announces \$9 Billion in COVID Fraud Cases Subjected to Criminal Investigation



Photo by [Martin Sanchez](#) on [Unsplash](#)

- “IRS Criminal Investigation releases updated COVID fraud statistics on 4th anniversary of CARES Act; nearly \$9 billion investigated,” IR-2024-83, March 28, 2024
 - Follow-up to last week’s announcement on the end of the ERC voluntary disclosure program
 - \$9 billion in potential fraud has involved in 1,644 tax and money laundering cases, over ½ from cases opened in the past year
 - 795 indictments, 373 sentenced to an average of 34 months in federal prison
 - 98.5% conviction rate

<https://www.irs.gov/newsroom/irs-criminal-investigation-releases-updated-covid-fraud-statistics-on-4th-anniversary-of-cares-act-nearly-9-billion-investigated>

IRS Announces \$9 Billion in COVID Fraud Cases Subjected to Criminal Investigation



Photo by [Martin Sanchez](#) on [Unsplash](#)

- “IRS Criminal Investigation releases updated COVID fraud statistics on 4th anniversary of CARES Act; nearly \$9 billion investigated,” IR-2024-83, March 28, 2024
 - Gives two example cases, both of which involved SBA loan issues (PPP and EIDL cases)
 - Cases mentioned involved falsifying information about entities and employees to file claims for multiple entities

<https://www.irs.gov/newsroom/irs-criminal-investigation-releases-updated-covid-fraud-statistics-on-4th-anniversary-of-cares-act-nearly-9-billion-investigated>



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