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IRS Issues Proposed Regulations on Withholding on Foreign Person's Transfer of Partnership Interest

The IRS has issued proposed regulations (REG-105476-18) (<https://s3.amazonaws.com/public-inspection.federalregister.gov/2019-09515.pdf>) that would implement Section 1446(f), which requires withholding from certain foreign persons that recognize gain or loss from the sale or exchange of an interest in a partnership that is engaged in the conduct of a trade or business within the U.S. (Section references are to the Internal Revenue Code of 1986, as amended (the Code).) Section 1446(f) was added to the Code by the 2017 Tax Cuts and Jobs Act (TCJA). The regulations also would modify the rules regarding withholding on distributions by publicly traded partnerships, including the rules that apply to qualified notices and nominees. According to the preamble to the proposed regulations, the regulations, when finalized, would adopt many of the rules that were described in Notice 2018-29 (<https://www.irs.gov/pub/irs-drop/n-18-29.pdf>) (see our prior coverage here <https://www.stradley.com/insights/publications/2018/04/tax-insights-april-11-2018>), with certain modifications provided in response to comments.

IRS Issues Guidance on Treatment of Redemption Made During S Corporation's Post-Termination Transition Period

The IRS issued Revenue Ruling 2019-13, 2019-20 IRB (<https://www.irs.gov/pub/irs-irbs/irb19-20.pdf>), which provides guidance on the treatment of a distribution in redemption of shareholder stock that is made during a former S corporation's post-termination transition period. The ruling holds that if, during a former S corporation's post-termination transition period, the corporation makes a cash distribution in redemption of shareholder stock that is characterized as a distribution subject to Section 301, the corporation should reduce its accumulated adjustments account (AAA) to the extent of redemption proceeds pursuant to Section 1368. Accordingly, based on an example, the redemption of 50 of the sole shareholder's 100 shares of a former S corporation's stock for a stated amount was characterized as reduction of stated AAA, with the remainder characterized as a dividend under Section 301(c)(1).

Private Schools Authorized to Use Internet to Publicize Nondiscrimination Policy

The IRS issued Revenue Procedure 2019-22, 2019-22 IRB (<https://www.irs.gov/pub/irs-drop/rp-19-22.pdf>), which provides that, for purposes of being recognized as an exempt organization, schools may use the internet to publicize their racially nondiscriminatory policies. Under prior guidance, issued nearly 50 years ago, private schools needed to make their nondiscriminatory policy known to all segments of the general community served by the school by (a) publishing a notice of their racially nondiscriminatory policy in a newspaper of general circulation or (b) announcing their policy over broadcast media. Revenue Procedure 2019-22 amends prior guidance to now permit a school to display a notice of its racially nondiscriminatory policy on its primary publicly accessible internet homepage at all times during its tax year (excluding temporary outages due to website maintenance or technical problems) in a manner reasonably expected to be noticed by visitors to the homepage. A publicly accessible homepage is one that does not require a visitor to input information, such as an email address or a username and password, to access it.

IRS Denies Tax Exemption to Organization Providing Financial Assistance to Medical Marijuana Users

The IRS issued Private Letter Ruling 201917008 (<https://www.irs.gov/pub/irs-wd/201917008.pdf>) in which it refused to grant tax-exempt status to an organization that provides financial aid to disadvantaged patients who have a medical need for marijuana. The ruling concludes that the taxpayer was not organized and operated exclusively for exempt purposes under Section 501(c)(3), which caused the IRS to deny its application for tax-exempt status. The ruling states that the taxpayer did not satisfy the organizational test for 501(c)(3) status, since under federal law cannabis use is illegal. The fact that the taxpayer's state legalized distribution of cannabis to a limited extent is not determinative.

NYSBA Tax Section Submits Report on Proposed FDII, GILTI Deduction Regulations

The New York State Bar Association Section of Taxation has submitted a report (https://www.nysba.org/Sections/Tax/Tax_Section_Reports/Tax_Section_Reports_2019/1416_Report.html) on proposed regulations (REG-104464-18) (see our prior coverage here <https://www.stradley.com/insights/publications/2019/03/tax-insights-march-13-2019>) on the deduction for foreign-derived intangible income (FDII) and global intangible low-taxed income (GILTI).

California Enacts Legislation Related to Wayfair

California enacted legislation (<https://www.cdtfa.ca.gov/industry/wayfair.htm>) responsive to the U.S. Supreme Court's decision in *South Dakota v. Wayfair, Inc.* (https://www.supremecourt.gov/opinions/17pdf/17-494_j4el.pdf) (see our prior coverage here <https://www.stradley.com/insights/publications/2018/06/tax-insights-june-27-2018>) by defining a



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retailer engaged in business in California to include any retailer that, in the preceding calendar year or the current calendar year, has total combined sales by the retailer and all persons related to the retailer exceeding \$500,000, and by treating marketplace facilitators, e.g., Amazon and eBay, as the seller for each sale facilitated through its marketplace for purposes of determining whether the marketplace facilitator is required to register and collect use tax.

Florida Updates Unclaimed Property Reporting Manual

The Florida Division of Unclaimed Property issued an updated manual (<https://www.myfloridacfo.com/appresources/UPMIS/HolderReporting/Reporting-Instructions-Manual.pdf>) providing comprehensive information on reporting unclaimed property in Florida. The manual includes requirements for reporting and remitting unclaimed property to the state of Florida, as well as frequently asked questions intended to assist holders concerning unclaimed property reporting requirements.