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IRS Issues Additional Guidance on Transition Tax on Untaxed Foreign Earnings

The Internal Revenue Service provided additional information (<https://www.irs.gov/newsroom/irs-provides-additional-details-on-transition-tax-on-untaxed-foreign-earnings>) to help taxpayers meet their filing and payment requirements for the Section 965 transition tax on untaxed foreign earnings. (Section references are to the Internal Revenue Code of 1986, as amended.) The 2017 Tax Cuts and Jobs Act requires certain taxpayers that have untaxed foreign earnings and profits to pay a tax as if those earnings and profits have been repatriated to the United States. The law provides details on the income that must be recognized. It also provides a related deduction that generally lowers the effective tax rate to between 8% and 15.5%. Certain taxpayers may elect to pay the transition tax over eight years. The IRS released information in a question and answer format (Q&As) (<https://www.irs.gov/newsroom/general-section-965-questions-and-answers-including-transfer-and-consent-agreements>) related to Section 965 that addresses certain general issues that are not specific to the filing of a 2017 or 2018 tax return. The issues addressed include how to make subsequent installment payments when the transition tax is paid over eight years. The Q&As also address the filing of Transfer Agreements and Consent Agreements.

IRS Rules Discharge of Debt Due to State Law Was Identifiable Event

The IRS issued Private Letter Ruling 201927005 (<https://www.irs.gov/pub/irs-wd/201927005.pdf>) in which it ruled that a creditor was required to comply with the reporting requirements of Section 6050P because its discharge of debt of residents of some states was the result of an “identifiable event” and not merely because those states’ laws required the discharge. The private letter ruling explains that certain states are “absolute bar states.” These states prohibit a creditor from collecting on any deficiency balance before the creditor sends out a proper notice. If the notice does not strictly comply with the state’s notice requirements, then there is an absolute bar on the creditor collecting any remaining deficiency balances. The IRS found that, although the existence of absolute bar state laws regarding the sufficiency of the notices may have influenced the creditors’ and debtors’ decision to settle their litigation, that type of influence is typical of parties’ assessment of litigation hazards in arriving at a negotiated settlement. In addition, the fact that the terms of the settlement agreement were approved by a court did not serve to convert the discharge of the debt from being entered into voluntarily to one forced by operation of state law. In general, under Section 6050P, a creditor must report any discharge of indebtedness of a debtor. For reporting purposes, a discharge of indebtedness is deemed to have occurred if and only if an identifiable event has occurred, whether or not an actual discharge of indebtedness has occurred on or before the date on which the identifiable event has occurred. One identifiable event is when the creditor and debtor agree to discharge the indebtedness for less than full consideration.

IRS Finalizes Income Inclusion Regulations for Lessees of Investment Credit Property

The IRS finalized regulations (<https://s3.amazonaws.com/public-inspection.federalregister.gov/2019-15497.pdf>) (TD 9872) that provide guidance on the income inclusion rules under Section 50(d)(5) applicable to a lessee of investment credit property when a lessor of such property elects to treat the lessee as having acquired it. The final regulations adopt 2016 proposed regulations without modification. The regulations apply with respect to investment credit property placed in service on or after Sept. 19, 2016.

IRS Issues Draft 2019 Form 1040

The IRS released draft versions of the 2019 Form 1040 (<https://apps.irs.gov/app/picklist/list/draftTaxForms.html;jsessionid=KhXFUAN66eOCLDHp9rYfsP1D7tzR4e9JMxrf60wh.-?value=1040&criteria=formNumber&submitSearch=Find>) and the schedules that accompany that form. The six schedules that existed in 2018 have been reduced to just three schedules in the 2019 drafts.

Pennsylvania Issues New Common Level Ratios

The Pennsylvania Department of Revenue has issued new common level ratio real estate valuation factors (<https://www.pabulletin.com/secure/data/vol49/49-28/1068.html>) for purposes of calculating realty transfer tax. The ratios generally apply to documents accepted for filing from July 1, 2019, through June 30, 2020.



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