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IRS Clarifies Reliance Concerns Regarding FAQs

The IRS [updated its process for certain FAQs](#) on newly enacted tax legislation to address concerns regarding transparency and potential impact on taxpayers when these FAQs are updated or revised and potential application of penalties to taxpayers who rely on FAQs by providing clarity to taxpayers as to their ability to rely on FAQs for penalty protection. Significant FAQs on newly enacted tax legislation, as well as any later updates or revisions to these FAQs, will now be announced in a news release and posted on IRS.gov in a separate Fact Sheet. The IRS also clarified that if the taxpayer relied on any FAQ in good faith and that reliance was reasonable, the taxpayer would have a “reasonable cause” defense against any negligence penalty or other accuracy-related penalty if it turned out the FAQ was not a correct statement of the law as applied to taxpayer’s particular facts.

IRS Issues Notice Regarding Organizational Standards for LLCs Seeking Tax-Exempt Status

The IRS released [Notice 2021-56](#), which sets forth the organizational standards that a limited liability company (LLC) must satisfy to be recognized as tax-exempt. The Notice states that the IRS will issue a determination letter recognizing an LLC as described in Section 501(c)(3) only if both the LLC’s articles of organization and its operating agreement include provisions requiring that each member of the LLC be either (1) an organization described in section 501(c)(3) and exempt from taxation under section 501(a) or (2) a governmental unit described in Section 170(c)(1) (or wholly-owned instrumentality of such a governmental unit). (Section references are to the Internal Revenue Code of 1986, as amended.) The Notice also provides that the LLC’s articles of organization and its operating agreement contain an acceptable contingency plan (such as suspension of its membership rights until a member regains recognition of its Section 501(c)(3) status) in the event that one or more members cease to be Section 501(c)(3) organizations or governmental units (or wholly-owned instrumentalities thereof). The Notice requests comments on the standards set forth in the Notice and on other specific issues relating to tax-exempt status for LLCs.

Treasury Releases Fact Sheet on Biden Administration’s Tax Compliance Proposal

The Treasury Department released a [Fact Sheet](#) discussing the Biden administration’s tax compliance proposal. According to the Treasury, the proposal gives the IRS the resources and information it needs to close the tax gap.



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