



FEDERAL TAX WEEKLY

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IRS Withdraws Proposed Rule on Disclosures in Passport Revocation Cases

Proposed Regulations, NPRM REG-129260-16

The IRS has withdrawn a proposed regulation that would have allowed the State Department to disclose tax return information to contractors involved in passport revocation or denial actions. The proposal, originally published on March 13, 2018 (REG-129260-16), was intended to clarify the State Department's authority under Code Sec. 6103(n) and Code Sec. 7345, enacted by the FAST Act, P.L. 114-94.

The IRS concluded that the proposed rule was unnecessary because current regulations under Reg. §301.6103(n)-1(a)(2)(ii) already permit such disclosures. These regulations allow the State Department to share return information with its contractors when the IRS provides written authorization and the disclosure is necessary for tax administration purposes. Code Sec. 7345 mandates the denial or revocation of passports for individuals certified as having seriously delinquent tax debt.

The withdrawal was issued under the authority of Code Sec. 7805 and signed by Acting Chief Tax Compliance Officer Edward T. Killen. Since the proposed rule merely duplicated existing authority, the IRS determined that finalizing the rule would serve no added purpose. No public hearing will be held.

Charitable Contribution Deductions No Longer Allowed for Organization

Announcement 2025-24

The IRS has announced that the following organization no longer qualifies under Code Sec. 170(c)(2) as an organization for which deductions for charitable contributions are allowed.

■ Foundation for Those With Special Needs, of Florida. Effective revocation date: January 1, 2026.

However, contributions made to the organization before September 2, 2025, will generally be deductible, unless made by a person who (1) knew of the revocation, (2) was aware that the revocation was imminent, or (3) was responsible, in whole or in part, for the activities or deficiencies that gave rise to the loss of qualification.

If the organization files suit, in a timely manner, for declaratory judgment under Code Sec. 7428, challenging the revocation of its status as an eligible donee of deductible charitable contributions, Code Sec. 170 contributions will continue to be deductible. Protection under Code Sec. 7428(c) would begin on January 1, 2018. The maximum amount of

individual contributions protected would be \$1,000, with a husband and wife treated as one taxpayer. This protection is not afforded to anyone who was responsible, in whole or in part, for the acts or omissions of the organization that resulted in revocation of qualification.

Charitable Contribution Deductions No Longer Allowed for Organizations

Announcement 2025-25

The IRS has announced that the following organizations no longer qualify under Code Sec. 170(c)(2) as organizations for which deductions for charitable contributions are allowed.

- John Derner Foundation, of Iowa. Effective revocation date: January 1, 2021.
- Second Paw Dog Rescue, of Texas. Effective revocation date: January 1, 2022.
- Second Paw Dog Rescue, of Louisiana. Effective revocation date: January 1, 2022.
- Second Paw Dog Rescue, of Mississippi. Effective revocation date: January 1, 2022.

IRS Urges Emergency Preparedness Ahead of Peak Disaster Season

The IRS has urged individuals and businesses to review emergency preparedness plans as hurricane season peaks and wildfire risks remain high. Essential documents such as tax returns, Social Security cards, insurance policies, and property titles should be stored in waterproof, fireproof containers, with digital backups kept in secure locations. Photos, videos, and written descriptions of property can support insurance and tax claims, and IRS disaster loss workbooks are available to help catalog possessions.

If records are lost, banks and other institutions often provide copies, and the IRS offers tools for reconstruction. Employers should confirm payroll protections and consider creating Electronic Federal Tax Payment System (EFTPS) accounts. IRS disaster relief generally includes postponed filing and payment deadlines, with uninsured losses deductible in the tax year at issue or the prior year.

IR-2025-89

- Second Paw Dog Rescue, of Texas. Effective revocation date: January 1, 2022.
- Second Paw Dog Rescue, of Mississippi. Effective revocation date: January 1, 2022.
- Legacy of Faith Partners, of California. Effective revocation date: January 1, 2022.

However, contributions made to the organizations before September 2, 2025, will generally be deductible, unless made by a person who (1) knew of the revocation, (2) was aware that the revocation was imminent or (3) was responsible, in whole or in part, for the activities or deficiencies that gave rise to the loss of qualification.

If an organization files suit, in a timely manner, for declaratory judgment under Code Sec. 7428, challenging the revocation of its status as an eligible donee of deductible charitable contributions, Code Sec. 170 contributions will continue to be deductible. Protection under Code Sec. 7428(c) would begin on August 15, 2025. The maximum amount of individual contributions protected would be \$1,000, with a husband and wife treated as one taxpayer. This protection is not afforded to anyone who was responsible, in whole or in part, for the acts or omissions of the organization that resulted in revocation of qualification.

Texas Disaster Notice Updated

Texas Disaster Relief Notice (TX-2025-04)

A July 9, 2025, notice granting relief to victims of severe storms, straight-line winds,

and flooding that began on July 2, 2025, in parts of Texas was updated by the IRS on August 28, 2025, to include Uvalde County.

REFERENCE KEY

USTC references are to **U.S. Tax Cases**
Dec references are to **Tax Court Reports**

FEDERAL TAX WEEKLY, 2025 No. 37. Published by Wolters Kluwer, 2700 Lake Cook Road, Riverwoods, IL 60015.
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Conservation Easement Overvaluation Results in Accuracy-Related Penalties

Buckelew Farm, LLC, CA-11, 2025-2 USTC ¶150,236

Penalties under Code Sec. 6662 imposed on a partnership were upheld where the Tax Court found, and the Court of Appeals affirmed, that a conservation easement was grossly overvalued. The partnership conveyed an easement on rural property and reported a deduction based on an appraisal assuming extensive residential development as the highest and best use. The IRS disallowed the deduction in part,

concluding that the valuation constituted a gross misstatement.

The Tax Court determined that the easement qualified as a charitable contribution under Code Sec. 170 but held that the partnership overstated its value. The Tax Court found that the appraisal relied on assumptions about a proposed development that were legally questionable under zoning rules and financially unrealistic under market conditions.

Crediting the IRS's expert, who employed a comparable-sales method, the Tax Court

concluded that the fair market value supported only a much smaller deduction. Because the claimed deduction exceeded the statutory threshold by more than 200 percent, penalties for a gross valuation misstatement were sustained under Code Sec. 6662(h). The Court of Appeals rejected the partnership's evidentiary and procedural objections and held that none undermined the Tax Court's findings. The petition was dismissed.

Unpublished opinion, affirming, per curiam, a tax court opinion, Dec. 62,460(M), T.C. Memo. 2024-052.

Washington Round-up

Treasury preparing “No Tax On Tips” regulations. The Treasury Department is preparing to release regulations for the “No Tax On Tips” provision of the recently enacted budget reconciliation bill. Although no official information about the regulations and no post yet has been made to the Federal Register, the agency in a press release highlighted a number of news reports that identified potential workers who could be eligible for the tax deduction, including workers in food and beverage services, entertainment and events, hospitality and guest services, home services, personal services, personal appearance and wellness, recreation and instruction, and transportation and delivery.

TIGTA finds \$2 billion in unpaid Social Security taxes in Tax Year 2020. The Treasury Inspector General for Tax Administration in a report dated August 27, 2025, stated that as of July 2024 “167,373 employers had approximately \$2 billion

in unpaid deferrals” in Tax Year 2020. This represents two percent of the nearly 1.1 million employers who deferred a total of \$133 billion in Social Security taxes. According to the IRS, as of May 2025, there were approximately 10,000 employers remaining who had not paid their deferral, and the IRS has yet to manually adjust their accounts to subject the unpaid amounts to standard collection processes. TIGTA reported that employers that did not pay their deferred Social Security taxes. IRS said it “will ensure that the penalties are adjusted on the identified accounts.”

ABA warns Treasury of dangers in transition away from paper checks. The American Bar Association, in a September 2, 2025, letter to Treasury Secretary Scott Bessent, advised against the elimination of paper checks when it comes to payments that need to be made to taxpayers by the IRS. The White House, in executive order 14247, called on Treasury to cease issuing

paper checks by the end of September 2025. The ABA, in its comment letter, suggested that Treasury does not have the legal backing to mandate electronic receipt of tax refunds. The organization added that the elimination of paper checks “may have a negative impact on unbanked and underbanked taxpayers,” while taxpayers living outside of the United States “may be unable to claim refunds they are entitled to by law.” The ABA added that if electronically distributed funds are lost, stolen, or misdirected, procedures resolving these issues are “more cumbersome.” And while the ABA reiterated its support of the policy goal of transitioning away from paper checks and towards electronic payments, it called on the agency to issue regulations educating the public regarding the transition and delaying the stated deadline in the executive order to an unspecified date beyond September 30, 2025.

TAX BRIEFS

Notice of Deficiency

An individual failed to report wage income and filed a zero-income Form 1040 while claiming a refund. The Tax Court found the

return invalid under the *Beard* test for lacking sufficient data and good-faith effort.

J.D. Supinger, TC Memo. 2025-93, Dec. 62,711(M)

REITs

In each of the first three cases, the IRS ruled that, unless Code Sec. 451(b)(1)(A) required earlier inclusion, income with

respect to the issuance of offsets will accrue under Code Sec. 451. The offsets were earned, received, or due. Income from the issuance of offsets would be considered qualifying income under Code Secs. 856(c)(2) and (3). In each case, the taxpayer was a limited liability company (LLC) that elected to be treated as a real estate investment trust (REIT) under Code Sec. 856. In the final case, the taxpayer and its subsidiary were granted an extension to make an election under Code Sec. 856 to treat said subsidiary as a taxable REIT subsidiary (TRS). An accounting firm hired by the taxpayer had failed to file Form 8875, Taxable REIT Subsidiary Election.

[IRS Letter Ruling 202536023](#); [IRS Letter Ruling 202536024](#); [IRS Letter Ruling 202536025](#); [IRS Letter Ruling 202536029](#)

S Corporations

An entity in which an individual (taxpayer and debtor) was the sole shareholder was allowed to be treated as an S Corporation (S1). The taxpayer was liable for penalties under Code Sec. 6663. However, the court was unable to compute the proper penalty amounts because the parties failed to establish the exact amount of the underpayment. The IRS failed to prove that the taxpayer committed tax fraud for tax year 2009. The taxpayer was not liable for Code Sec. 6651 additions to tax for tax years 2013, 2014, and 2016. The taxpayer was liable for Code Sec. 6694 penalties, for nine returns admitted at trial. He understated the tax liabilities of nine taxpayers.

[R.A. Stadtmueller, BC-DC Wash., 2025-2 USTC ¶50,232](#)

Tax Crimes

An individual's convictions under Code Sec. 7206(1) and Code Sec. 7203 were upheld where the District Court found, and the Court of Appeals affirmed, willful violations of federal tax obligations.

[Scott, CA-D.C., 2025-2 USTC ¶50,234](#)

Transfer Pricing

The Tax Court improperly rejected the IRS's proposed transfer pricing method. It adopted a different method that the IRS maintained was prohibited under the applicable regulations. The performance of different functions by proffered comparable companies was insufficient reason to reject the comparable profits method.

[Medtronic, Inc., CA-8, 2025-2 USTC ¶50,237](#)