Natural Venture Capital

IRS Settlement Update

What Changed for Partners

PRESENTED BY

NaturalVC

Before We Begin

- Why are we doing this?
- How are we doing this?
- Who is helping us?

- Natural Venture Capital LLC is a taxpayer rights education and analytical services company.
- Not a law firm or accounting firm; does not provide legal or tax advice.
- All analysis is delivered to clients and their accountants for review.
- The session is informational; prior results do not guarantee a similar outcome.

Events in August

Unrelated, yet Timely

IRS SETTLEMENT CHANGES

On August 19, the IRS ended its **uniform settlement initiative**, establishing an Office of Conservation Easements, significantly altering the settlement landscape for partnerships.

TAX COURT RULING

On August 17, the Tax Court's decision in Malibu Valley Land LLC v. Commissioner affirmed the genuine intent of donations, valuing easements significantly higher than IRS estimates, impacting future evaluations.

August 19 Settlement Changes

PROGRAM CONCLUSION

The IRS has officially removed the August deadlines to accept its settlement program initiated on May 13, halting the issuance of further uniform settlement letters for conservation easements.

DEADLINES WITHDRAWN

Previously issued settlement offer deadlines have been rescinded, meaning that outstanding offers can no longer be accepted without further negotiation or action.

EXISTING ELECTIONS

All elections submitted prior to this decision will continue to be processed according to the terms originally established, maintaining their validity despite the program's conclusion.

NEW PATHWAYS

Taxpayers may pursue a request-based path through assigned Examination or Chief Counsel representatives, ensuring cases are handled on an individual basis going forward.

What the IRS Conceded

STANDARDIZED LETTERS

The IRS acknowledged that **standardized settlement letters** with fixed deadlines do not suit the unique circumstances of these cases, recognizing the individual nature of each partnership agreement.

CASE VARIABILITY

After nine years, the agency conceded that partnership agreements and procedural postures differ significantly, emphasizing that each case requires its own factual analysis for accurate evaluation.

PARTNERSHIP ANALYSIS

The IRS now focuses on **partner-level analysis**, affirming that every case's outcome depends on individual facts rather than applying a one-size-fits-all approach to settlements.

What the IRS Normally does:

TAX COURT FOLLOWS ITS OWN PRECEDENT ON DEFICIENCY JURISDICTION

ON AUGUST 25, TAX COURT DISMISSED A LATE-FILED PETITION RELATED TO A NOTICE OF DEFICIENCY FOR LACK OF JURISDICTION, SIGNALING ITS INTENT TO FOLLOW ITS OWN PRECEDENT WITH RESPECT TO WHETHER THE FILING DEADLINE FOR PETITIONS IN DEFICIENCY CASES IS JURISDICTIONAL, AND WHETHER EQUITABLE TOLLING SHOULD APPLY. FIVE CIRCUITS HAVE RULED ON SECTION 6213(A)'S DEFICIENCY PETITION DEADLINE, FINDING IT NOT TO BE JURISDICTIONAL. FOUR HAVE FOUND EQUITABLE TOLLING TO APPLY: THE SECOND CIRCUIT IN BULLER V. COMMISSIONER, 160 F.4TH 266 (2D CIR. 2025); THE THIRD CIRCUIT IN CULP V. COMMISSIONER, 75 F.4TH 196 (3D CIR. 2023); THE SIXTH CIRCUIT IN OQUENDO V. COMMISSIONER, 148 F.4TH 820 (6TH CIR. 2025); AND THE EIGHTH CIRCUIT IN MANIKTALA V. COMMISSIONER, NO. 25-1366 (8TH CIR. 2026); WHILE ONE HELD IT IS NONJURISDICTIONAL YET MANDATORY AND FOUND THAT EQUITABLE TOLLING WOULD NOT APPLY. KYICK HOLDINGS LLC V. COMMISSIONER, NO. 25-1429 (1ST CIR. 2026), AS DESCRIBED IN LAST WEEK'S S&C TAX POLICY UPDATE

HTTPS://WWW.SULLCROM.COM/INSIGHTS/MEMO/2026/AUGUST/AUGUST-31-TAX-POLICY-UPDATE

Malibu Valley Case

IRS VALUATION

The IRS valued the easement at $0.00 first then **$4.65 million**, asserting that the claimed value disproved donative intent. This valuation sparked significant legal scrutiny and debate.

TAX COURT RULING

The Tax Court countered, finding the donation genuine and valuing the easement at roughly **$19.7 million**, (about 40% less than claimed) rejecting all penalties based on reasonable cause and good faith grounds.

https://dawson.ustaxcourt.gov/case-detail/20442-19

Congress Draws the Line

DEDUCTION LIMITS

SECURE 2.0 Section 605 sets a deduction limit of **2.5 times** each partner's relevant basis, ensuring a clear boundary for what can be claimed.

IRS CHALLENGES

Despite congressional intent, the IRS has taken a **zero valuation position** in approximately 93% of recent Tax Court easement cases, complicating the landscape for partners.

LEGISLATIVE INTENT

Congress emphasized that these deductions play a **crucial role** in preserving critical habitats, highlighting their commitment to environmental conservation through thoughtful legislation.

PENALTY ASSERTIONS

The IRS has asserted penalties in nearly **99%** of these cases, raising concerns about fairness and the implications for partners seeking equitable resolutions.

Partnership Settlement Insights

RESOLVED ITEMS

The partnership case resolves only partnership items, leaving individual partner matters unaddressed, including penalties and the accuracy of interest calculations.

INDIVIDUAL RESPONSIBILITIES

Each partner's individual circumstances must be considered, as the resolution is agreed to by the Partnership, NOT the Partner

TIMELINESS ISSUES

The partnership settlement does not address whether the IRS adhered to required notice and assessment deadlines, which remain crucial for individual partners.

Partner Level Defenses (-2017, >2017)

TAX ASSESSMENT

Generally, partners cannot contest the additional tax assessed. The tax is due, and partners will have to pay it.

REASONABLE CAUSE

Individual partners can assert reasonable cause as a defense, emphasizing their good faith efforts to comply with tax laws despite previous partnership resolutions.

TIMELY ASSESSMENT

A defense against IRS claims includes ensuring timely assessments were made, as delays or failures to notify can impact the validity of tax assessments against partners.

INTEREST COMPUTATION

Partners must consider the accuracy of interest computations, especially those considering disaster periods, which may affect their overall tax obligations and liabilities.

ACCURACY OF TAX FIGURES

Partners can question the accuracy of the tax figures applied to them. Scrutiny on this issue can lead to significant adjustments in individual tax responsibilities.

Current Developments

KWONG APPEAL

The Kwong v United States case addresses interest accrual during the COVID disaster period, currently on appeal at the Federal Circuit, impacting related tax considerations for many partners.

CAREY BILL

HR 9398, known as the Carey bill, proposes a settlement election for partnerships with unresolved cases. However, it excludes cases that are already finalized, limiting its benefits.

LAPSED CLAIMS

Unfortunately, neither the Kwong case nor the Carey bill assists those whose claims have lapsed before reaching resolution, emphasizing the importance of protecting grounds on record now.

Timing and Interest Considerations

IRS REORGANIZATION IMPACT

The IRS reorganization is likely to **slow down resolution** times significantly, causing delays in processing claims and communications. As the agency transitions, partners may experience extended wait times for responses and decisions.

CLAIM DEADLINES

Some claim deadlines have already passed for specific years, while others remain open. Determining which deadlines apply is crucial and depends on your individual circumstances, underscoring the importance of timely action.

How the Work Reaches You

STREAMLINED PROCESS

Our process aims to simplify communication and enhance efficiency for all parties.

INDIVIDUAL ENGAGEMENT

Every engagement is tailored to the individual partner and their specific facts.

ANALYSIS DELIVERY

NaturalVC provides analysis and documentation directly to you and your accountant.

ACCOUNTANT'S ROLE

Your accountant reviews, prepares, and submits any filings based on our analysis.

DIRECT COLLABORATION

We collaborate with sponsors to ensure partner-level analysis benefits their investors.

Next Steps for Partners

ASSESSMENT REVIEW

The August 19 changes may affect each matter differently based on its procedural posture and dates.

UNANSWERED OFFERS

If you had an offer that you did not answer, it is no longer open; please consult your counsel before making a request.

DEADLINE AWARENESS

Contact us if you have received an assessment, as deadlines vary based on your specific dates.

Thank You

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CONTACT OUR SUPPORT TEAM

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