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Back in Business? The IRS Revives "Significant Issue" Rulings for Corporate Transactions

Tax Talks on **May 19, 2026**

On May 5, 2026, the Internal Revenue Service ("IRS") released Revenue Procedure 2026-21 (the "Rev. Proc."), which reinstates a program under which taxpayers may request private letter rulings ("PLRs") on "significant issues" arising in certain corporate transactions[1] without asking the IRS to rule on the entire integrated transaction.[2]

Although ruling opportunities remain limited under the Rev. Proc., the IRS's resumption of this program is welcome, and it follows calls from practitioners for the IRS to reinstate significant issue rulings for corporate transactions.

Background

The IRS's approach to ruling requests for corporate transactions has changed several times over the past two decades. As discussed in the new Rev. Proc., the IRS has a general policy against issuing letter rulings on only one part of an integrated transaction. The historical predecessors to the new Rev. Proc. carved out a number of different exceptions to this policy and focused on whether parts of the larger transaction presented "significant issues." Under Rev. Proc. 2001-3, the IRS would rule on an entire transaction if it determined that a significant issue had to be resolved. In 2009, the IRS began a pilot program for Section 355 distributions (spinoffs), and that program allowed for rulings on specific parts of larger transactions. By 2013, the IRS shifted its focus toward significant issue rulings and updated that guidance again in 2017. In 2024, however, the IRS generally ended significant issue rulings and instead permitted taxpayers to seek "comfort rulings" for certain transactions under Subchapter C.[3]

For the last few years, taxpayers who have desired clarity from the IRS via issue-specific ruling requests for corporate transactions have had few to no options. The new Rev. Proc. creates a limited exception allowing the IRS to issue rulings on significant issues, although the program is narrower than its prior iterations. The new guidance only applies to ruling requests made solely under the jurisdiction of the Associate Chief Counsel (Corporate),[4] and which involve the tax consequences or characterization of a transaction, or part of a transaction, described in Sections 332, 351, 355, 368, or 1036. In other words, the program appears directed at issues arising in liquidations, formations, reorganizations, spinoffs, and related consequences, including Section 358 basis issues in connection with Section 351 exchanges. The Rev. Proc. expressly states that it "does not diminish the availability of letter rulings under existing programs."[5] By its plain terms, the relief the Rev. Proc. offers is quite limited. We do not expect that the new Rev. Proc. will reverse the overall trend away from ruling requests or signal a greater receptiveness from other divisions of IRS Associate Chief Counsel to ruling requests.

What Counts as a "Significant Issue"

A significant issue, generally, is a "germane and specific issue of law." The Rev. Proc. provides the usual limitations against both comfort rulings and rulings that are not essentially free from doubt.[6] An issue is *germane* if the issue's resolution is necessary to determine the correct tax treatment of a transactional element. An issue is *specific* if it is the narrowest articulation of the otherwise germane issue.[7] This scope makes clear that the Rev. Proc.'s intention is to offer rulings on narrow, unresolved legal issues that affect the transaction's tax treatment, as opposed to broad, generalized transactional comfort.

The Rev. Proc. includes examples of issues the IRS thinks are appropriate for the program, including examples in which the ruling would not necessarily address the transaction's overall treatment.[8] The Rev. Proc. notes that the IRS may also rule on issues related to the significant issue, such as the basis consequences of a nonrecognition transaction, where a significant issue is presented under a related section.[9]

Before taxpayers embark upon the ruling process, they should confer with the IRS to get a sense of whether the IRS agrees that an issue is significant, germane, and specific. The way to do this is through the pre-submission conference process referenced in the Rev. Proc. (as well as in Revenue Procedures 2026-1 and 2023-26). In addition to answering the question of whether the ruling request is worth a taxpayer's time and effort at all, the pre-submission conference is important to clarify the scope of the request.

Scope and Process

Any PLR issued under the new procedure will still be limited in scope. The IRS is not required to rule on the overall tax consequences of the transaction, or on any issue or transaction step not specifically addressed.[10] The IRS also retains substantial discretion under the Rev. Proc. to decline to rule where it determines that a ruling would not be in the interest of sound tax administration (including because of resource constraints), and it may rule on other issues related to the transaction, including adversely, if it believes doing so is appropriate.[11]

Accordingly, taxpayers should address process considerations early. Before preparing a request, taxpayers must follow the outlined procedures to discuss whether the Office of Associate Chief Counsel (Corporate) will issue a ruling.[12] If the request concerns part of an integrated transaction, the taxpayer also must provide a representation regarding the relevant tax consequences of the integrated transaction, assuming the IRS issues the requested ruling. Taxpayers requesting rulings on a significant issue under a particular section or regulation also must represent that, to the best of their knowledge and belief, the transaction otherwise satisfies the requirements of that section or, as applicable, the relevant definitional section.

Practical Implications

The Rev. Proc. is a positive development for taxpayers contemplating corporate reorganizations, spin-offs, and related transactions. In many cases, taxpayers may not need a ruling on the entire transaction but may still value IRS guidance on a specific legal issue that is material to the transaction's tax treatment.

The procedure could be particularly helpful for taxpayers where published guidance does not clearly resolve a narrow legal issue, and where an IRS ruling could further support an opinion of counsel on the topic. It could also help taxpayers avoid the cost, delay, and complexity of seeking a ruling on a broader transaction when the real uncertainty concerns only one component of the transaction.

The Rev. Proc. opens a door that has effectively been closed to taxpayers for some time, although only slightly. The IRS continues to face significant administrative backlogs and serious staffing shortages, and the IRS still retains substantial discretion under the Rev. Proc. to determine whether a ruling request is actually significant. In other words, in this era of resource constraints, the IRS has many reasons to keep the door closed to significant issue ruling requests, but the IRS has chosen not to do so. It is possible that the new policy will result in beneficial rulings for taxpayers, but it remains to be seen how many ruling requests the IRS will accept, how quickly rulings will be processed, and how the IRS will apply the "significant issue" standard in practice.

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[1] Taxpayers may request a ruling on part of an integrated transaction described in Sections 332, 351, 355, 368, or 1036.

[2] References to "section" are to sections of the Internal Revenue Code.

[3] "Comfort rulings" are letter rulings on issues which are already clearly and adequately addressed by statute, regulation, court decision, or authority published in the Internal Revenue Bulletin.

[4] Associate Chief Counsel (Corporate) generally provides published guidance, field support, and taxpayer advice on tax matters involving corporate organizations, reorganizations, liquidations, spin-offs, transfers to controlled corporations, distributions to shareholders, debt vs. equity determinations, bankruptcies, and consolidated return issues affecting groups of affiliated corporations among other matters.

[5] Rev. Proc. 2026-21, 1.

[6] *Id.* at 7.

[7] *Id.*

[8] *Id.* at 6. For example, a Section 351 exchange that does not present any significant issues under Section 351 may present a significant issue regarding the application of Section 358 to the transferor in the exchange.

[9] *Id.* at 2.

[10] *Id.* at 7.

[11] *Id.* at 6.

[12] A request must include a narrative description of the transaction, a statement identifying the issue, an analysis of the relevant law and why existing authorities do not resolve the issue, applicable information and representations from relevant revenue procedures to the extent they relate to the significant issue, the precise ruling requested, and a statement that no rulings outside Associate Chief Counsel's jurisdiction are requested.

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