

Court Ruling in SRA's Lawsuit Against the IRS

Yesterday, a federal court struck down the IRS's "listed transaction" designation for 831(b) Plans. SRA funded this lawsuit and joined as a co-plaintiff, and the court ruled in our favor on the issue that created the most damage to the industry.

Here is the background. In January 2025, the IRS finalized a rule creating two tiers of reporting requirements for 831(b) Plans. The first tier, "transactions of interest," required disclosure filings. The second tier, "listed transactions," was far more consequential. It placed 831(b) Plans in the same category as known tax shelters, carried penalties up to $200,000 with no IRS discretion to waive them, and created a chilling effect across the industry. Many advisors and their clients stepped back from 831(b) Plans entirely, not because the plans lacked merit, but because the listed transaction label made participation feel risky. SRA believed the rule overstepped the IRS's authority, and we funded and joined this legal challenge to address it.

Judge Rosenthal of the U.S. District Court found the IRS did not have the evidence to support treating 831(b) transactions as presumptively abusive. The court declared the listed transaction regulation unlawful and vacated it, effective May 1, 2026. The transaction of interest designation, which carries lighter reporting requirements and lower penalties ($50,000 maximum, with IRS discretion to waive), was upheld.

For your practice, this is significant. The listed transaction label was the single biggest source of hesitation in conversations with clients and prospects about 831(b) Plans. That label is now gone. The transaction of interest designation that remains is effectively the same reporting framework that has been in place since the IRS issued Notice 2016-66 in 2016. SRA has complied with that notice for the past ten years. In practical terms, this ruling returns the regulatory environment to the status quo your clients have been operating under for the last decade, minus the most damaging label the IRS had attempted to attach.

If you have clients who paused or walked away from 831(b) because of the listed transaction designation, this is the right time to revisit that conversation. And if prospects or their other advisors have raised concerns about the regulatory environment around 831(b), this ruling directly addresses the most aggressive piece of that environment. We are here to support those conversations however we can.