

INTERNAL REVENUE BULLETIN



HIGHLIGHTS OF THIS ISSUE

Bulletin No. 2024-11
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These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

INCOME TAX

Announcement 2024-10, page 711.

This announcement addresses the Federal income tax treatment of certain lead service line replacement programs for residential property owners. The replacement of lead service lines under the programs described in the announcement does not result in income. Water systems and state governments are not required to file information returns or furnish payee statements with respect to the replacement of lead service lines under these programs.

The IRS Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and procedures must be considered, and Service personnel and others concerned are cautioned

against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

Part I.—1986 Code.

This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

Part II.—Treaties and Tax Legislation.

This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

Part III.—Administrative, Procedural, and Miscellaneous.

To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

Part IV.—Items of General Interest.

This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

The contents of this publication are not copyrighted and may be reprinted freely. A citation of the Internal Revenue Bulletin as the source would be appropriate.

Part IV

Replacement of Lead Service Lines under Certain Governmental Programs

Announcement 2024-10

This announcement addresses the Federal income tax treatment of certain lead service line replacement programs for residential property owners.

The Environmental Protection Agency (EPA) has determined that lead has no safe exposure level. In drinking water, it causes serious and long-term health problems. Lead enters the drinking water when lead pipes and plumbing fixtures corrode. Given the health risks, many governmental entities have adopted programs for replacing lead service lines. The 2021 Infrastructure Investment and Jobs Act appropriated approximately \$15 billion to governmental entities, as administered by the EPA, for the identification and replacement of lead service lines, almost half of which will be provided to disadvantaged communities as grants or principal forgiveness. *See* Pub. L. No. 117-58, 135 Stat. 429, div. J, tit. VI.

A lead service line is defined in 40 CFR 141.2 as a pipe and its fittings, which are not lead free, that connect a drinking water main to a building inlet. A lead service line can be owned by a public water system, owned by a property owner, or jointly owned. Typically, a lead service line is part-owned by the public water system and part-owned by the property owner. The portion of the lead service line on public property (public portion) runs from the water main to the boundary of the residential property. The portion on the residential property (privately-owned

portion) runs from the residential property's boundary to the house or building.

The Federal government and many state governments require that the privately-owned portion of the lead service line be replaced simultaneously with the other relevant parts of the water system that contain lead. Digging and cutting during partial replacement is known to release more lead into the drinking water. New materials from partial lead service line replacement activities can also increase corrosion.

Generally, governmental entities replace lead service lines at no cost to property owners in two ways. In many cases, the public water system, using its own workers and contractors, replaces the public portion and private portion simultaneously and controls the timing and scope of the work performed by its employees and its approved contractors. The public water system typically obtains the owner's explicit consent to enter the residential property to replace the privately-owned portion. In some municipalities, however, consent is deemed granted under local laws. *See, for example*, N.J.S.A. C.58:12A-39 (2020).

In other cases, the public water system reimburses residential property owners, or directly pays contractors on the residential property owners' behalf, to replace the privately owned portions of lead service lines. For jurisdictions that choose this method, replacement of the private and public portions typically occurs simultaneously in order to prevent further lead contamination in the system. In these cases, the public water system generally controls the quality and reliability of the contractors either by providing a pre-approved list for the local area or by individually approving a contractor before work may be started.

The Department of the Treasury (Treasury Department) and Internal Revenue Service (IRS) have considered the Federal income tax treatment of the lead service line replacement programs described above. In both scenarios, the public water system controls all or virtually all aspects of the replacement work. While there are factual variations, the Treasury Department and the IRS have determined that these variations do not warrant a different outcome under the Federal tax laws. Accordingly, the replacement of lead service lines under the programs described above does not result in income to the residential property owners under § 61 of the Internal Revenue Code.¹ *See Bailey v. Commissioner*, 88 T.C. 1293 (1987), acq. 1989-1 C.B. 1 (recipient of a rehabilitation grant from municipality lacked dominion and control where city controlled the rehabilitation work). The rules under § 6041 and § 1.6041-1(a) and (f)(1) requiring information reporting (such as on a Form 1099-Misc., *Miscellaneous Information* or Form 1099-G, *Certain Government Payments*) do not apply to the cost or value of replacing lead service lines under the programs described above, based on the determination that such replacement does not give rise to gross income to the property owner under § 61. Accordingly, water systems and state governments are not required to file information returns or furnish payee statements with respect to the replacement of lead service lines under these programs.

The principal author of this announcement is Alina Lewandowski of the Office of Associate Chief Counsel (Income Tax & Accounting). Other personnel from the Treasury Department and IRS participated in its development. For further information regarding this announcement, please contact Ms. Lewandowski at (202) 317-7006 (not a toll-free number).

¹ Unless otherwise specified, all “§” references are to sections of the Internal Revenue Code or to the Income Tax Regulations (26 CFR part 1).

Definition of Terms

Revenue rulings and revenue procedures (hereinafter referred to as “rulings”) that have an effect on previous rulings use the following defined terms to describe the effect:

Amplified describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with *modified*, below).

Clarified is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

Distinguished describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

Modified is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the

new ruling holds that it applies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

Obsoleted describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

Revoked describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

Superseded describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the

new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

Supplemented is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

Suspended is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

Abbreviations

The following abbreviations in current use and formerly used will appear in material published in the Bulletin.

A—Individual.
Acq.—Acquiescence.
B—Individual.
BE—Beneficiary.
BK—Bank.
B.T.A.—Board of Tax Appeals.
C—Individual.
C.B.—Cumulative Bulletin.
CFR—Code of Federal Regulations.
CI—City.
COOP—Cooperative.
Ct.D.—Court Decision.
CY—County.
D—Decedent.
DC—Dummy Corporation.
DE—Donee.
Del. Order—Delegation Order.
DISC—Domestic International Sales Corporation.
DR—Donor.
E—Estate.
EE—Employee.
E.O.—Executive Order.
ER—Employer.

ERISA—Employee Retirement Income Security Act.
EX—Executor.
F—Fiduciary.
FC—Foreign Country.
FICA—Federal Insurance Contributions Act.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
F.R.—Federal Register.
FUTA—Federal Unemployment Tax Act.
FX—Foreign corporation.
G.C.M.—Chief Counsel’s Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
I.R.B.—Internal Revenue Bulletin.
LE—Lessee.
LP—Limited Partner.
LR—Lessor.
M—Minor.
Nonacq.—Nonacquiescence.
O—Organization.
P—Parent Corporation.
PHC—Personal Holding Company.
PO—Possession of the U.S.
PR—Partner.
PRS—Partnership.

PTE—Prohibited Transaction Exemption.
Pub. L.—Public Law.
REIT—Real Estate Investment Trust.
Rev. Proc.—Revenue Procedure.
Rev. Rul.—Revenue Ruling.
S—Subsidiary.
S.P.R.—Statement of Procedural Rules.
Stat.—Statutes at Large.
T—Target Corporation.
T.C.—Tax Court.
T.D.—Treasury Decision.
TFE—Transferee.
TFR—Transferor.
T.I.R.—Technical Information Release.
TP—Taxpayer.
TR—Trust.
TT—Trustee.
U.S.C.—United States Code.
X—Corporation.
Y—Corporation.
Z—Corporation.

Numerical Finding List¹

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¹ A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2023–27 through 2023–52 is in Internal Revenue Bulletin 2023–52, dated December 26, 2023.

Finding List of Current Actions on Previously Published Items¹

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¹ A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2023–27 through 2023–52 is in Internal Revenue Bulletin 2023–52, dated December 26, 2023.

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The Introduction at the beginning of this issue describes the purpose and content of this publication. The weekly Internal Revenue Bulletins are available at www.irs.gov/irb/.

We Welcome Comments About the Internal Revenue Bulletin

If you have comments concerning the format or production of the Internal Revenue Bulletin or suggestions for improving it, we would be pleased to hear from you. You can email us your suggestions or comments through the IRS Internet Home Page (www.irs.gov) or write to the Internal Revenue Service, Publishing Division, IRB Publishing Program Desk, 1111 Constitution Ave. NW, IR-6230 Washington, DC 20224.