

IRS



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IRS OFFERS TAX SHELTER SETTLEMENTS FOR LIMITED TIMES

WASHINGTON – The Treasury Department and the Internal Revenue Service announced today that taxpayers involved in three types of tax shelters will have limited times to accept IRS offers to resolve their tax issues. After the settlement periods end, the IRS will pursue the remaining cases through its usual enforcement processes, including litigation when appropriate.

The IRS identified these transactions through a disclosure initiative earlier this year, through audits of tax shelter promoters and through the normal audit processes.

The settlement offers require taxpayers to pay significant amounts of tax, plus interest. Both the government and the taxpayers will avoid expensive litigation on these issues. The specific settlements depend on the merits of each transaction and each case. The IRS will also consider whether penalties should apply where taxpayers did not previously disclose their abusive transactions.

“This effort is a way to resolve cases without months or years of costly litigation while making it clear to taxpayers who may consider participating in abusive tax shelters in the future that they will end up in a bad deal,” said IRS Commissioner Charles O. Rossotti. “It is not smart business to rely on the claims of promoters who stand to gain fees by selling these deals.”

The IRS identified two of the shelters – known as the Section 302/318 basis shifting and the Section 351 contingent liability – as tax avoidance transactions in notices issued last year. The IRS has not previously offered any settlements related to these transactions. Taxpayers in the basis shifting transaction will have until Dec. 3, 2002, to notify the IRS of their decision to participate in this settlement initiative. Those in the contingent liability transaction will have until Jan. 2, 2003, to apply for resolution of their tax liability under one of two settlement processes.

The third shelter – corporate-owned life insurance (COLI) – has been found to be abusive by the courts. Since August 2001, the IRS has offered COLI taxpayers a settlement in which they retain 20 percent of the claimed benefits. This offer is being discontinued. Taxpayers will receive letters giving them 45 days to accept the offer before it ends. Taxpayers who want to use this offer but who do not receive a letter by Oct. 19 should contact the IRS by Nov. 18, 2002.

(more)

Details of the three settlement offers and application processes are in:

- Announcement 2002-97, dealing with basis shifting transactions;
- Announcement 2002-96, dealing with COLI; and
- Revenue Procedure 2002-67, dealing with contingent liability transactions.

These items will be published in Internal Revenue Bulletin 2002-43, dated October 28, 2002, and will be available soon on the IRS Web site at www.irs.gov.

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