

U.S. Senate Committee on Finance

For Immediate Release

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Grassley, Baucus Praise IRS Effort on Abusive Tax Schemes Involving Stock Options

WASHINGTON – Today the Internal Revenue Service (IRS) announced a settlement initiative for an abusive listed transaction used by executives and their companies to evade income and employment taxes related to compensatory stock options. Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, praised IRS efforts taking aggressive action to identify and shut down these tax shelters.

In the scheme, described in IRS [Notice 2003-47](#), an executive delays paying income tax on stock options for up to thirty years, and also evades related employment taxes. The employer supports this abuse by misstating the executive's W-2 income and through other actions. The settlement initiative encourages the involved parties to come forward to pay all income and employment taxes, as well as applicable penalties. Participants in the transaction who fail to use the initiative will be subject to more stringent terms and conditions. The initiative warns those who do not come forward that the IRS will use all available tools to find them.

“I appreciate the IRS’ effort to flush out the participants in this scheme,” Grassley said. “The agency plays a key role in enforcing a zero tolerance approach to executive tax evasion. Executives are like any other taxpayers. They have a duty to pay every penny they owe, not a penny more or a penny less. I urge all participants in this abusive arrangement to come forward and ’fess up while they have the chance.”

Baucus said, “I am pleased that the IRS is taking strong, innovative action to put an end to the abusive manipulation of compensatory stock options by highly paid executives and their large corporate employers to evade income taxes. Collusion between large corporations and well-paid executives to avoid paying their fair share is contemptible and must not be tolerated. And by cracking down on abuses like this, the IRS can contribute to balancing the budget.

“Participants in these transactions who plan to play the ‘audit lottery’, hoping never to be found, should not get too comfortable. Legislation I introduced and that was passed in the American Jobs Creation Act of 2004 keeps the statute of limitations open on a tax return with a listed transaction until one year after the IRS receives information about it. In addition, there are substantial penalties for failing to disclose a listed transaction.

“I support the IRS’ efforts to combat this and other abusive transactions. As Congress begins its debate on the 2006 budget, I urge members to give the IRS the tools it needs to deter, detect and

put a stop to this type of abusive behavior, which contributes to our ever growing tax gap and undermines the financial well being of our country and its citizens.”