Illinois Department of Revenue

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Federal and State Alignment to Bring Abusive Tax Shelters to Heel

Promoters Identify 1,300 Illinois Taxpayers Who Have Used Inappropriate Shelters

SPRINGFIELD – A Downers Grove couple disclosed participation in an abusive tax shelter and last week made a $900,000 payment under the Voluntary Compliance Program (VCP) that ends January 31.

The Downers Grove residents and an individual from Glen Ellyn, who earlier paid $1.4 million, have made the largest payments to date under the VCP. Together the three individuals acknowledged using abusive shelters to under-report income by more than $77 million.

The Department of Revenue has received the names of more than 1,300 other taxpayers who used abusive shelters, when promoters that include large law firms and national accounting firms made the required filing December 31 filing of their customer lists.

As its auditors prepared to examine the promoters' lists, the department urged taxpayers who participated in abusive shelters to come forward under the VCP to avoid a significant new $30,000 penalty for not disclosing use of a shelter, a new 30 percent penalty on deficiencies, and a 100 percent interest penalty.

"We have the names of taxpayers who used abusive shelters because the promoters have identified them," said Revenue Director Brian Hamer. "I urge taxpayers to take advantage of the opportunity to avoid the penalties that kick in when the VCP expires."

The new promoter reporting requirements, penalties, and the VCP are part of an effort to crack down on abusive tax shelters, complex transactions entered into without an economic purpose other than the avoidance of income tax.

These shelters were developed by promoters and marketed to clients as a way to reduce their taxes, with the promoters receiving a portion of the savings. The Internal Revenue Service and the states have identified these abusive tax shelter schemes and have been cracking down on them.

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Both the $900,000 payment and the previous $1.4 million payment involved an abusive tax shelter commonly known as "Son of Boss," a shelter for which the IRS has recently identified Illinois participants.

Illinois' enforcement effort involves cooperation with the IRS and other states, all of which are sharing information they develop on both promoters and users of abusive shelters. A database has been developed through which 47 states are sharing information about taxpayers and abusive tax shelters.

Illinois has established an abusive tax shelter unit to focus solely on abusive shelters and to work with field auditors to identify taxpayers using such shelters.

Illinois has mailed more than 9,000 notices to taxpayers to make them aware of the VCP and to urge them to participate before the new penalties become effective.

The IRS web site at www.irs.gov contains a complete listing of abusive tax shelters that have no business purpose or economic substance. They involve paper transactions to avoid income tax by: 1] generating artificial losses 2] artificially inflating the basis of assets to avoid tax on the gain from the sale of the asset or 3] deferring or shifting income/gain to untaxed entities. Taxpayers create these fraudulent "tax savings" by doing multiple paper transactions through multiple entities (partnerships, limited liability companies, S corporations, regular corporations and trusts).

To participate in the Illinois VCP taxpayers must file a Voluntary Compliance Agreement, an original or amended tax return, and make payment by January 31.

Information on the VCP, including the necessary agreement form, is available on the department's web site at www.ILtax.com.

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