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Illinois Announces Crackdown on Abusive Tax Shelters Taxpayers Encouraged to Come Forward

CHICAGO – Armed with tough new legislation and the assistance of 47 other states and the Internal Revenue Service, Illinois today announced a crackdown on abusive tax shelters, allowing taxpayers to avoid the new penalties by coming forward before January 31.

Unprecedented cooperation with the IRS and other states has already yielded the names of 1,400 taxpayers who participated in abusive shelters, and Illinois has put each on notice of the significant penalties in the new legislation.

“These sham transactions that have no business purpose other than the avoidance of income tax are wrong,” Illinois Revenue Director Brian Hamer said. “We are committed to ensuring that all Illinois taxpayers contribute their fair share.”

A tax shelter is a complex financial transaction intended to reduce or eliminate income taxes. A shelter becomes abusive when it has no legitimate business purpose. The IRS maintains a list of transactions that it deems to be abusive.

Illinois has dedicated a team of tax auditors to uncovering abusive tax shelters and enforcing substantial new penalties authorized by the Illinois General Assembly in July. The team has already begun working with IRS auditors and has traveled to California, the first state to lead a

concerted effort against tax shelters, to learn more about how to recognize and unravel these convoluted schemes. Illinois' resources are magnified by federal and interstate cooperation.

Director Hamer encouraged taxpayers to come forward under the Voluntary Compliance Program (VCP) offered in the new legislation. By voluntarily disclosing their participation in abusive tax shelters and paying underreported taxes, taxpayers can avoid a \$30,000 non-disclosure penalty, a 30% underreporting penalty and a 100% interest penalty. The VCP is available from now until January 31. Once the VCP closes, auditors will begin following up on leads sent from audit bureaus around the country. States are being aggressive on this issue, and it is only a matter of time before taxpayers who have used abusive tax shelters to hide income are discovered.

“Taxpayers who participated in these transactions that have no business purpose other than tax avoidance may have received bad advice,” Hamer said. “The VCP lets them make things right without incurring the new penalties.”

Unlike a tax amnesty under which taxpayers are given a break for coming forward and paying taxes that they owed, the VCP gives taxpayers relief only from the new penalties that were enacted in July.

To participate in the VCP, taxpayers must file a simple one-page participation form, the VCP-1, and amended tax returns. The form is available at www.ILtax.com. Taxpayers must also pay any tax that was underreported as a result of the use of an abusive shelter, plus interest.

The VCP is projected to generate \$100 million before it ends on January 31.

Information on the new legislation and on the VCP is available at www.ILtax.com. A list of abusive tax shelters is available on the IRS web site at www.irs.gov.

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