INTERNAL REVENUE SERVICE

IRS News Release

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Robust Response for Executive Stock Option Initiative; Son of Boss Settlement Heading for $4 Billion

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WASHINGTON – Internal Revenue Service officials announced today that they received a strong turnout for the executive stock option settlement initiative launched in February. The initiative provided corporate executives and their companies a means to resolve an abusive tax transaction involving the transfer of stock options to family controlled partnerships.

Through this abusive stock option scheme, executives attempted to defer tax on stock option income for up to 30 years. The settlement required executives to include 100 percent of their stock option compensation in income, pay applicable interest, income and employment taxes and pay a 10-percent penalty.

“When we announced this initiative in February, we wanted to give corporations and executives a chance to turn the page and make things right,” said IRS Commissioner Mark W. Everson. “The vast majority of those involved chose to come forward under the settlement’s tough terms. The response reflects higher standards for corporate governance and less tolerance for abusive tax transactions.”

Of 124 executives identified, 10 were determined not to have participated in the abusive transaction. Of the remaining 114, 80 executives elected to participate under the terms of the settlement offer. Fifteen other executives reached agreement through the audit process. Nineteen individuals did not elect to participate. Those who declined to participate in the settlement offer are either under audit or had other pending criminal tax investigations.

Those executives who elected to participate or otherwise resolved their tax liability have $500 million in potential income adjustments. The IRS estimates that the 19 executives who did not participate in the settlement offer underreported their income by more than $400 million.

Of 46 corporations identified, four were found to have correctly reported the transaction on their returns. Of the remaining 42 corporate participants in the transaction, 33 elected to participate in the settlement initiative. Four corporations had passed the statute of limitations for audit although their related officers elected to participate in the initiative. Five corporate taxpayers did not elect to participate.

The settlement initiative attracted four new companies and seven executives that had not previously been known to the IRS.

These results build on the success of the recent Son of Boss settlement initiative and reflect the IRS' multi-year effort to aggressively counter abusive tax avoidance transactions.

New Son of Boss Figures

The IRS also released the latest figures on its Son of Boss settlement offer, a 2004 initiative to resolve another abusive tax shelter transaction. To date more than 1,200 electing taxpayers have qualified to participate in this offer. The taxes, interest and penalties collected from this group has now topped $3.7 billion.

"We are still processing a number of the more complicated elections and expect the final tally will be near $4 billion," Everson said.

About 750 taxpayers did not elect or did not qualify to participate in the Son of Boss settlement offer. The IRS will continue to pursue these cases through audits and the normal litigation process. So far, more than 100 Son of Boss cases are in court and the IRS expects the first cases to go to trial by early fall.

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