

 Fact Sheet

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States See Son of Boss Benefits; Tax Administrators Praise Efforts

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WASHINGTON — As part of a larger partnership between the Internal Revenue Service and state tax agencies, states are beginning to see early results from the Son of Boss settlement initiative.

Many taxpayers who participated in the Son of Boss initiative also amended their state tax returns. Arizona, Illinois, Maine, Maryland, Michigan, New York, Ohio, Utah and Virginia are among the states benefiting from the initiative and have collected more than \$23.5 million from voluntary state tax return amendments.

In addition, the IRS information shared with the states has initially resulted in \$161 million in disallowed losses claimed and assessments of nearly \$16 million in taxes, interest and penalties for Colorado, Connecticut, Maine, Maryland, Missouri, North Dakota, Pennsylvania, Utah and Virginia combined. More states are expected to show significant benefits as the initiative progresses.

Separately, a number of states have also pursued Son of Boss participants through their own state compliance initiatives. The California Franchise Tax Board through its voluntary compliance initiative has collected \$132 million to date from Son of Boss participants, while the New York State Department of Taxation and Finance has collected approximately \$45 million through a similar program.

To date, information from 1,015 cases has been shared with 34 states.

Son of Boss is a highly sophisticated, technically complex, no-risk scheme designed to generate tax losses without corresponding economic risks. The scheme was promoted to entrepreneurs and companies seeking to shelter large gains from the sale of a business or capital asset and sometimes was used with executive stock options. The deal uses various financial products, such as currency options and government securities, in transactions totally extraneous to the investor's business or the asset sale creating the sheltered gain.

Following are comments from various state tax agencies and officials:

Jerome D. Gerard, Acting Executive Director, Maine Revenue Services

"The IRS transfer of information on Son of Boss audits is an example of cooperative information sharing between taxing agencies at its finest. Maine Revenue Services

stands shoulder to shoulder with the IRS in its desire to send a non-tolerance message to tax evaders. IRS Son of Boss audit activity during the fiscal year ending June 30, 2005 currently represents 29 percent of the Maine Revenue Services compliance results aimed at individual non-filers and under-reporters. Maine Revenue Services looks forward to continued positive results with this initiative."

Gerald H. Goldberg, Executive Officer, California Franchise Tax Board

"The loss of tax money rightfully owed to California from abusive tax shelters is staggering, approaching \$1 billion annually. By working together with the IRS and other state revenue departments, we are seeing some exciting results in curtailing this serious problem. Through our own state voluntary compliance initiative, we have collected \$132 million to date from 100 taxpayers participating in the Son of Boss transactions. Through our partnership with the IRS, we expect to get leads on another 400 cases."

Andrew Eristoff, Commissioner, New York State Department of Taxation and Finance

"Working closely with the IRS and other states, the 'Son of Boss' initiative is putting the brakes on the kind of abusive tax transactions that cost honest taxpayers money and force them to shoulder an unfair share of the tax burden. New York will continue to work vigorously with the IRS to see that these abuses end quickly."

William Donald Schaefer, Comptroller of Maryland

"We are very gratified by initial results from IRS action on Son of BOSS transactions which have already resulted in Maryland tax assessments of \$10.9 million and collections of \$7.9 million. Our own efforts in combating similar transactions are well underway. This is very much a two-way partnership."

Gregory C. Fajt, Pennsylvania Revenue Secretary

"The Pennsylvania Department of Revenue has aggressively challenged abusive tax shelters through its innovative Pass Through Business Office. Information provided by the IRS about the Son of Boss tax shelter helped the Commonwealth identify and assess taxpayers who avoided \$443,000 in state taxes. We will continue to work with the IRS to identify taxpayers who use abusive tax shelters."

Statement of the Missouri Department of Revenue

"Based on the IRS abusive tax shelter findings involving the "Son of Boss" transactions, the Missouri Department of Revenue received several amended Missouri returns and collections totaling more than \$1.1 million in January 2005."

Harley T. Duncan, Executive Director, Federation of Tax Administrators

"IRS efforts to share information on their Son of Boss initiative with the states is just one more example of the reinvigorated effort of IRS and the states to work together to combat abusive tax transactions. We're excited by the results, and these efforts send a very clear message that engaging in abusive transactions has consequences at the federal, state and local levels."