INTERNAL REVENUE SERVICE

IRS News Release

Media Relations Office | Washington, D.C. | Media Contact: 202.622.4000
www.IRS.gov/newsroom | Public Contact: 800.829.1040

Strong Response to "Son of Boss" Settlement Initiative

IR-2004-87, July 1, 2004

WASHINGTON — The Internal Revenue Service announced today a strong turnout by taxpayers to settle a tax shelter commonly known as "Son of Boss."

More than 1,500 taxpayers filed Notices of Election by the June 21 deadline.

"By any measure, this is a strong response from taxpayers entangled in Son of Boss transactions," said IRS Commissioner Mark W. Everson. "Those who elected to settle did the right thing. We have already begun to contact the taxpayers who didn't take us up on the offer and expect to begin enforcement action soon. "

The IRS announced the Son of Boss settlement initiative on May 5 to encourage people to settle before IRS enforcement action. The IRS is aware of transactions involving estimated understatements of tax in excess of $6 billion, not including interest and penalties.

Under the terms of the settlement, taxpayers must concede all the claimed tax losses, must pay all applicable interest and must pay a penalty unless they previously disclosed their participation in the transaction. Participating taxpayers will be allowed to deduct as a loss their out-of-pocket transaction costs, typically promoter and professional fees.

Taxpayers not participating in the settlement will soon receive a statutory notice of deficiency (90-day letter) disallowing all losses and out-of-pocket costs and will be assessed maximum applicable penalties, up to 40 percent.

The IRS continues to identify new Son of Boss and other abusive transaction participants through investor lists obtained in IRS promoter investigations and successful summons enforcement actions by the Department of Justice. This year, the IRS has uncovered at least 500 previously undisclosed Son of Boss transactions.

"We will vigorously pursue all those who participated in Son of Boss deals but did not take advantage of the settlement initiative," Everson said.

— MORE —

Highlights of an initial review of the applications show:

- About 85 percent of the taxpayers known to the IRS filed elections to settle.
- Many of those taxpayers had transactions generating tax losses of between $10 million and $50 million. In several cases, the tax losses claimed were greater than $500 million.
- About two-thirds of those electing face either a 10 or 20 percent penalty — depending on whether they had been involved in other abusive shelters.
- More than 300 taxpayers who were previously unknown have come forward. The IRS believes these elections will help lead to additional promoters and investors in Son of Boss-type shelters and additional taxpayers that participated in these and other abusive transactions.

For taxpayers who filed elections to settle, a variety of steps will unfold during the next several months. Following information exchanges, the taxpayers must sign the formal settlement documents and pay all monies due. The IRS will not know the total amount of tax, interest and penalties involved until after investors have provided relevant information that will be reviewed during the next several months.

“For those who haven’t come forward and intend to take the IRS to court, we plan an aggressive litigation strategy,” said IRS Chief Counsel Don Korb. “The word is getting out that there won’t be a better deal waiting if people take these cases to court.”

Son of Boss was aggressively marketed in the late 1990s and 2000 to companies and wealthy individuals by a network of law firms, accounting firms and investment banks. In August 2000, the IRS issued Notice 2000-44 declaring the transactions abusive and requiring promoters to maintain a list of investors.

— 30 —