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

IRS Collects $3.2 Billion from Son of Boss; Final Figure Should Top $3.5 Billion

IR-2005-37, March 24, 2005

WASHINGTON — The Internal Revenue Service announced today that taxpayers participating in the Son of Boss tax shelter settlement have so far paid in more than $3.2 billion, a figure that should top $3.5 billion when the project concludes in coming months.

Son of Boss was an abusive transaction aggressively marketed in the late 1990s and 2000 primarily to wealthy individuals. The settlement initiative required taxpayers to concede 100 percent of the claimed tax losses and pay a penalty of either 10 percent or 20 percent unless they previously disclosed the transactions to the IRS.

“This was a particularly bad shelter, and we’re glad so many chose to get right with the government,” said IRS Commissioner Mark W. Everson. “Despite the tough terms we offered, two-thirds of Son of Boss participants have come forward and paid up.”

So far, $3.2 billion in taxes, interest and penalties have been collected from the 1,165 taxpayers who are participating in the settlement initiative. The typical taxpayer payment was almost $1 million, with 18 taxpayers paying more than $20 million each and one paying over $100 million. Processing of individual settlements continues.

Based on disclosures the IRS has received from promoter investigations and from investor lists from Justice Department litigation, the agency has determined that just over 1,800 people participated in Son of Boss.

“For those who didn’t come forward, we know who they are,” Everson said. “We are going after them.”

Participants not taking part in the settlement initiative have or will shortly receive a deficiency notice from the IRS disallowing all claimed tax losses and transaction costs. They will also be assessed the maximum applicable penalty — 40 percent. Their choice now will be either to settle with the IRS by paying the higher amounts or litigate their cases in court.

"The IRS's legal position on this abusive transaction is strong," IRS Chief Counsel Don Korb said. "It's our belief that taxpayers who did not participate in the settlement will rue the day they made that decision."

— MORE —

The Son of Boss initiative is part of a broader enforcement effort at the IRS, including eradicating abusive tax shelter deals and cracking down on those who promoted them. This effort includes increased audit activity of taxpayers and promoters; expanded criminal investigations; a new focus on professional ethics and responsibility through the IRS Office of Professional Responsibility; designating appropriate tax cases for litigation; and offering targeted settlement initiatives.

Following the Son of Boss initiative, a new settlement program involving an abusive transaction of stock option transfers by executives to family controlled entities was announced last month. Taxpayers have until May 23 to come forward to participate in that initiative.

Key congressional committees have worked with the IRS on the continuing efforts to combat abusive tax shelters, particularly the Senate Finance Committee and the Senate Governmental Affairs Permanent Subcommittee on Investigations.

“We appreciate the continued support from Congress on our tax shelter efforts,” Everson said. “In particular, I want to thank Chairman Grassley and Sen. Baucus as well as Sen. Levin and Sen. Coleman for championing shelter initiatives.”

States Benefit from Son of Boss initiative

States will also benefit from the Son of Boss initiative, part of a larger partnership between the IRS and the states.

Many taxpayers who filed Son of Boss elections also are amending their state tax returns. Arizona, Illinois, Maine, Maryland, Michigan, New York, Ohio, Utah and Virginia are among the states initially 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, to date, 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.

On a separate track, some states have been pursuing Son of Boss participants through their own programs.

"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,” said Harley T. Duncan, executive director of the Federation of Tax Administrators, an association representing tax administration agencies in the 50 states, the District of Columbia and New York City. “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.”

— 30 —