



# TAX SHELTER *Update*

December 2004

## About this newsletter

*This is the second in a series of updates about tax shelters in Illinois.*

The purpose of the **TAX SHELTER Update** is to provide a brief overview of the progress of implementing the new tax shelter laws in Illinois. The Voluntary Compliance Program (VCP) and the new penalties and reporting requirements were instituted after negotiations with the Illinois State Chamber of Commerce. Additional information is available on the department's web site at [www.ILtax.com](http://www.ILtax.com).

## General Information

The two-tiered effort to eliminate participation in abusive tax shelters in Illinois continues to move forward. First, the Department of Revenue is preparing to enforce new penalties and additional reporting requirements that go into effect in January. Second, in anticipation of the enforcement effort, the department is making taxpayers aware of the VCP that provides the opportunity for disclosure and payment of liabilities that had not previously been paid, as a result of participating in abusive tax shelters.

Abusive tax shelters involve transactions that do not have any business purpose, besides expressly reducing or eliminating a tax liability. The department estimates that these transactions, which have been the focus of federal attention, cost Illinois \$60 to \$85 million per year.

## Were you notified?

As part of its informational program for the VCP and the new laws that will soon be in place, the department has mailed notifications to

- 1,400 taxpayers identified by the IRS and other states as participating in abusive tax shelters;
- 1,500 law and accounting firms asking they make their clients aware of the VCP;
- 2,800 businesses under audit or identified for audit advising them they may wish to participate in the VCP before their participation is discovered in audit.

## Current collections....

Since the program was launched in October, the department has received 64 applications to participate in the VCP and has collected \$683,618.

The goal of the program is to raise \$100 million, most of which will be received in late January.

## Implementing the new law....

On the enforcement side of the law, the department is preparing to move forward with an aggressive campaign to work cooperatively with other states and the IRS to identify and eliminate abusive tax shelters. To date, the department has

- established an eight-person abusive tax shelter team and sent auditors to California, New York, and Washington D.C. to be trained in techniques to identify shelters;
- received lists of promoters of abusive tax shelters, and their client lists, from the IRS and other states;
- joined with other states to establish the Multi State Tax Shelter (MSTS) databases to share information. The MSTS application will let Illinois look up taxpayers with questionable transactions to see whether another state has identified them as participating in an abusive tax shelter and to obtain that information from the other state; and
- answered hundreds of phone calls from taxpayers and tax practitioners inquiring about the program.

## What's Next?

Another round of notification letters is scheduled to be mailed in the third week of December. These letters will be mailed to all other large, unitary taxpayers in Illinois advising them of the VCP.

Regulations for the enforcement side of the effort have been proposed. They are in the approval process.

The IRS recently made changes to their registration requirements for tax shelters. Since our legislation is based on federal requirements, our regulations will reflect the changes made by the IRS.

All income tax instructions for 2004 will include requirements for taxpayers that have participated in abusive tax shelter transactions.