



STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

AN 2005(15)

25 Sigourney Street
Hartford CT 06106-5032

ANNOUNCEMENT

2005 Abusive Tax Shelter Compliance Initiative

Purpose: This Announcement alerts taxpayers, accountants, lawyers, and financial professionals of a Connecticut Department of Revenue Services (DRS) compliance initiative for participants in abusive tax shelters.

Tax Shelter Legislation: As part of an on-going effort to curtail the use of abusive tax shelters, the Connecticut General Assembly has passed legislation mandating specific disclosure requirements for taxpayers participating in any abusive tax shelter designated by the Internal Revenue Service (IRS) as a “listed transaction.” For audits of income tax returns or corporation business tax returns beginning on or after January 1, 2006, a penalty of 75% of the amount of the deficiency may be imposed when it appears that any part of the deficiency is due to a failure to disclose a “listed transaction.” Also, promoters of abusive tax shelters may be subject to a penalty of 50% of the gross income received from the marketing, soliciting, sale, or promotion of abusive tax shelters.

The legislation also increases the time limit for conducting audits of abusive transactions from three years to six years after the return was filed.

To notify taxpayers of the new tax shelter legislation, DRS is offering a Connecticut Abusive Tax Shelter Compliance Initiative (CATSCI) from October 1, 2005, until December 31, 2005. CATSCI is a program that allows taxpayers who underreported their income or tax liability by participating in an abusive tax shelter designated by the IRS as a “listed transaction,” to come forward and pay any additional amounts due and avoid the 75% abusive tax shelter penalty as well as possible criminal prosecution.

Promoters of abusive tax shelters can also participate in CATSCI and avoid the 50% promoter penalty in exchange for a complete investor list and fee schedule.

A *listed transaction* is a reportable transaction that is the same as or substantially similar to one of the types of transactions the IRS has determined to be a tax avoidance transaction and identified by notice, regulation, or other form of published guidance as a “listed transaction”. See Treasury Regulation §1.6011-4. This is true whether or not the IRS has identified the transaction as a “listed transaction” at the time the taxpayer entered into the transaction.

Terms of the 2005 Compliance Initiative:

- (1) Taxpayers must concede 100% of the underreported income and/or tax liability as a result of their participation in a “listed transaction.”
- (2) Interest on the underpayment of tax will be imposed until payment is made in full. The filing of the election to participate does not suspend the accrual of interest on the underpayment.
- (3) In exchange for coming forward, DRS will not impose a penalty of 75% of the deficiency that resulted from the taxpayer’s participation in an abusive tax shelter. Rather, a 10% negligence penalty will be imposed.
- (4) Promoters who elect to participate in CATSCI and provide a complete investor list and fee schedule will avoid a penalty of 50% of the gross income derived from marketing or selling abusive tax shelters.
- (5) DRS will not pursue criminal prosecution for any taxpayer that participates in the 2005 CATSCI.

To Participate in CATSCI:

To receive any benefit from participating in CATSCI you must:

- Complete **Form CT-ATS, Election to Participate in the 2005 Connecticut Abusive Tax Shelter Compliance Initiative**;
- Attach a copy of an amended federal income tax return eliminating the abusive tax avoidance transaction. If an amended federal return has not been filed with the IRS, a pro forma amended federal return must be provided to DRS;
- Attach a pro forma amended Connecticut return eliminating the abusive tax shelter transaction;
- Pay the total amount of additional tax, interest (1% per month or fraction of a month) and 10% negligence penalty; **and**
- Mail to:
Department of Revenue Service
State of Connecticut
Abusive Tax Shelter Compliance Unit
25 Sigourney Street
Hartford CT 06106

Note: Do not send any return intended for CATSCI to the mailing address listed on the Connecticut original or amended return.

- Promoters who wish to participate in CATSCI must include a complete investor list and fee schedule.

Closing Agreement: Upon receipt of Form CT-ATS (including all required attachments and payment), DRS will prepare a closing agreement under Conn. Gen. Stat. §12-2e reflecting the terms of the compliance initiative.

Enforcement: DRS will target and aggressively pursue any taxpayer who engaged in a “listed transaction” to shelter income and who has not come forward to participate in this settlement initiative. DRS will impose the 75% penalty on tax shelter participants or investors and the 50% penalty on tax shelter promoters.

To find participants and promoters of abusive tax shelters, DRS is methodically reviewing and examining all tax shelter information received from the IRS and other states. DRS has signed a Memorandum of Understanding with the IRS and approximately 40 other States, allowing DRS to share

a database, audit techniques, procedures, and guidelines related to abusive tax avoidance schemes. In addition, DRS has created a unit of well-trained auditors who will conduct abusive tax shelter audits and promoter investigations. This unit will refer cases to the DRS Special Investigations Section and the IRS Criminal Investigations Division.

Effect on Other Documents: None.

Effect of This Document: Announcements alert taxpayers to new developments (other than newly enacted or amended Connecticut or federal laws or newly released judicial decisions), including new administrative positions, policies, or practices.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at www.ct.gov/DRS
- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu. Only forms (not publications) are available through TAX-FAX.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation business tax, business entity tax, or withholding tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.
- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.

E-News Service: Get connected to the latest news from DRS. Receive notification by e-mail of changes to legislation, policies, and procedures. **DRS E-News** is easy to sign up for – visit www.ct.gov/DRS and follow the directions. Subscription services are available for employer’s withholding tax, *Fast-File* information, Alerts, News – Press Releases, and Top 100 Delinquency List.

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