



California's Treatment of Tax Shelters

Debbie Langsea

California Franchise Tax Board

June 7, 2004

Agenda

- Introduction
- Reporting Requirements
- Tax Shelter Penalties
- Hot Topics

Introduction

- Compliance Activity
- Voluntary Compliance Initiative Program
- Enforcement Activity



Reporting Requirements

Investors:

- Disclose Transactions

Promoters:

- Register Tax Shelters
- Provide List of Investors

Federal Reportable Transactions

- General federal disclosure requirements (IRC §6011)
- 2003 tax years
- 2/28/00 transactions



California Listed Transactions

- Federal listed transactions
- RIC transactions
- REIT transactions
- Other

Registrations

- General federal registration requirements (IRC §6111)
- California connections
- Listed transactions

List of Investors

- General federal list maintenance requirements (IRC §6112)
- California connections
- Listed Transactions (automatic provision)
 - Federal listed transactions
 - California listed transaction

Tax Shelter Penalties

- Investors
- Promoters
- Tax Return Preparers



Investors

- Non-economic substance transaction understatement
- Reportable transaction understatement
- Interest based
- Failure to disclose

Understatement Penalties

- Non-economic Substance Transaction
 - Up to 40% of understatement
 - Open tax years
- Reportable Transaction
 - Up to 30% of understatement
 - Tax years beginning 1/1/03

Other Penalties

- Interest Based
 - Contacts
 - 100% of interest payable
- Failure to Disclose Reportable Transaction
 - High-net worth and large entities
 - \$15,000 or \$30,000

Promoters/Preparers

- Failure to maintain/provide client list
- Failure to register shelter
- Promoter penalty
- Tax return preparer penalty

Hot Topics

- Information Sharing Agreements
- Subpoenas
- Promoters
- Federal Provisions:
 - Circular 230
 - IRS Settlement Initiatives





QUESTIONS

www.ftb.ca.gov