



TRS Newspaper

Tax Resolution Services, Co., Est. 1997

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Two-Thirds of Companies Agree to Settle with IRS

A majority of companies suspected of participating in LILO and SILO transactions agree to make nice with Uncle Sam

The Internal Revenue Service's aggressive tax compliance and enforcement initiatives continue.

The U.S. tax-collecting agency announced it has received settlement agreements from more than two-thirds of American corporations suspected of participating in arrangements that pushed away income tax obligations for many years.

These arrangements, known Lease-In/Lease-Out (LILO) and Sale-in/Sale-Out (SILO) transactions, are complicated dealings in which a large corporation leases or purchases substantial assets, such as foreign rail systems or sewer systems, and then leases those assets back to the original owner. This arrangement can delay recognition of income, becoming a sort of tax shelter.

The IRS, trying to put the kibosh on these transactions, notified U.S. corporations it believed were using them and offered these companies an opportunity to settle with the government.

In all, two-thirds of notified companies complied, representing 80 percent of the total number of LILO and SILO leases and 80 percent of the dollars in dispute.

"This broad response from some of the nation's largest corporations reflects the success of the IRS campaign against aggressive tax shelters," said IRS Commissioner Doug Shulman in a statement.

"Corporations that have chosen to settle have done the right thing by putting this behind them. For those who failed to take us up on this offer, we will vigorously pursue their cases."

The government has gone to court and challenged successfully LILO and SILO transactions as having no purpose other than to create tax benefits.

Prior to the settlement initiatives, hundreds of these transactions had yet to be fully examined or adjudicated fully.

The large percentage of eligible corporations electing to participate in the settlement offer substantially lessens the examination inventory.

The LILO/SILO settlement initiative is the latest in a series of efforts to detect, deter and resolve individual and corporate tax shelters. Over the past eight years, the IRS has vigorously attacked tax shelters through examination, litigation and administrative guidance.

"In the end, all American taxpayers benefit because this strong response to a settlement offer frees up IRS staff to actively pursue other compliance priorities," Shulman said.

The IRS is uncompromisingly pursuing tax shelters not only among the nation's largest corporations but also among private citizens.

In recent months, the IRS requested taxpayers notify the agency of all foreign bank accounts held. In fact, the IRS took action against 100 U.S. taxpayers with accounts in the tiny nation of Liechtenstein.

In move after move, the IRS has made one thing clear: Whether you're a large company or a private citizen, tax evasion will be punished.

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