

Alabama Department of Revenue

News Release

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ADOR Signs Agreement to Combat Abusive Tax Avoidance Transactions

Montgomery, March 4, 2004—The Alabama Department of Revenue (ADOR) announced today that the department was one of 37 state tax agencies, along with New York City and the District of Columbia, that signed a joint agreement to share information among their agencies relating to abusive tax shelters and illegal transactions, a move intended to strengthen efforts against this complex problem.

“Abusive tax avoidance transactions have become a threat to the fiscal health of our states,” explained Stephen M. Cordi, Deputy Comptroller for Maryland and president of the Federation of Tax Administrators (FTA), an association of the tax agencies in all states, D.C. and New York City. “It’s hard to overstate the size of the problem or the difficulty of dealing with it in an efficient and systematic way.”

“These schemes depend on dozens of layers of transactions – each one intended to bury the taxable income a little deeper. The layers are then scattered among any number of states. We can only uncover these types of schemes by sharing knowledge and by having a close working relationship with our sister states.”

The document signed today focuses on the type of abusive tax transaction information to be shared, confirms the role of joint promoter audits and coordinated enforcement actions, and encourages active exchanges of case listings and documents.

As New York State Department of Taxation and Finance Commissioner Andrew S. Eristoff explained, “Working with the IRS and other states, we will scrutinize major accounting firms, tax practitioners and other professional firms who may be or have been involved in promoting these illegal schemes, which allow companies and individuals to evade millions of dollars in taxes. The complexity of these transactions doesn’t mitigate the fact that these companies and individuals are engaged in potentially criminal acts, ripping off the vast majority of honest taxpayers.”

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“In Alabama, we look forward to this opportunity to work closely with our sister states to remedy the growing problem of abusive tax avoidance transactions. I feel confident that honest taxpayers expect us to do all that we can to have these entities pay their fair share,” said ADOR Director of Tax Policy Michael E. Mason.

California State Controller and Chair of the Franchise Tax Board Steve Westly added, “With California facing a record budget deficit, we can’t afford to let tax cheats take money away from schools, healthcare and major projects like building freeways. We’re teaming up with other states to work smarter, catch more tax cheats and collect the revenue they owe.”

State tax agencies routinely share confidential tax data with one another. For more than 10 years FTA has facilitated this activity by developing and sponsoring the Uniform Exchange of Information Agreement. Each state’s statute spells out the manner in which confidential data must be shared, stored, disposed of; the multistate disclosure agreement is the written authorization required by each state’s statute. Today’s agreement specifies the types of work that will be done together to combat abusive and illegal transactions.

According to the FTA, the new agreement complements one signed last September between the IRS and 45 states (including Alabama), the District of Columbia and New York City. Under the terms of the Abusive Tax Avoidance Transactions (ATAT) partnership, the federal and state governments agreed to coordinate their efforts and share data on illegal schemes to evade both federal and state taxes. However, there are abusive shelters and illegal transactions that are engineered to avoid state taxation only, particularly those involving the taxation of corporations, partnerships and pass-through entities. Today’s agreement provides a formal structure for the states to notify one another when they uncover one of these new schemes, to share insights on new compliance thinking, and to point out potentially fruitful directions for audit exploration.