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Subject: Reminder: New York State and City Voluntary Disclosure Programs are Underway for Taxpayers Involved in Tax Shelters

Date: January 3, 2006

To Our Clients and Friends:

Voluntary disclosure programs with respect to tax avoidance transactions (i.e., tax shelters) are becoming prevalent around the country. Generally, a tax shelter is a plan or arrangement devised for the principal purpose of avoiding tax. The Internal Revenue Service has designated certain transactions as tax avoidance transactions. State and local taxing authorities may independently designate what transactions they deem to be tax shelters.

Generally, a tax shelter: (1) is promoted with the promise of tax benefits; (2) has predictable tax losses or tax consequences; (3) has no true or correlating economic loss with respect to the taxpayer's income or assets; or (4) follows the literal reading of a tax statute in a manner inconsistent with the intent of the tax statute.

Characteristics of a tax shelter may include: (1) separation of income and expenses; (2) use of pass through entities; (3) use of third-party accommodators; (4) double benefit for the same tax loss; or (5) transactions conducted over a short period of time.

New York State and City are currently offering tax shelter voluntary disclosure programs. The programs are in effect until March 1, 2006. Eligible periods generally include periods beginning prior to January 1, 2005.

The provisions of the New York State and City voluntary disclosure programs are quite detailed. In order to clarify some of the complexities of the programs, attached please find Publication 671, New York State Department of Taxation and Finance, and Finance Memorandum 05-7, New York City Department of Finance.

If you have any questions regarding the New York State and City tax shelter voluntary disclosure programs, or any other state and local tax matters, please do not hesitate to contact me.

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