

THE GENETELLI CONSULTING GROUP
State and Local Tax Services
431 FIFTH AVENUE
NEW YORK, NY 10016

(212) 684-4111
FACSIMILE: (212) 213-1020
EMAIL: rgenetelli@genetelli.com

Subject: MTC Voluntary Compliance Program - Tax Shelters
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To Our Clients and Friends:

The states are continuing to focus on taxpayers that participate in tax avoidance transactions (i.e., tax shelters). 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.

The Multistate Tax Commission is currently offering a tax shelter voluntary compliance program. The program is in effect through October 1, 2007. Taxpayers that filed returns for tax periods beginning before January 1, 2006 using tax shelters are eligible to participate in the program. Taxpayers that did not file tax returns because of tax shelter involvement are also eligible to participate in the program.

Benefits of participating in the voluntary compliance program include a waiver of penalties. Taxpayers are forewarned that once the program ends, the states intend to use shared information to target taxpayers that fail to voluntarily comply through the program.

States participating in the voluntary compliance program include Alabama, Alaska, Arizona, Arkansas, Colorado, Connecticut, Georgia, Indiana, Iowa, Massachusetts, Missouri, Montana, New Jersey, Oklahoma, Oregon, Rhode Island, Texas, Vermont, Washington and Wisconsin.

If you have any questions regarding the Multistate Tax Commission voluntary compliance program, including procedures to participate in the program, please do not hesitate to contact me.

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Richard W. Genetelli
The Genetelli Consulting Group
State and Local Tax Consultants
431 Fifth Avenue, 3rd Floor
New York, NY 10016
Tel: (212) 684-4111
Fax: (212) 213-1020
<http://www.genetelli.com>