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**Subject: New York State Tax Shelter Voluntary Compliance Initiative**  
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To Our Clients and Friends:

Voluntary disclosure programs with respect to tax avoidance transactions (i.e., tax shelters) continue to be 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.

A New York State tax shelter voluntary compliance initiative will be in effect from November 1, 2008 through January 31, 2009 (applications postmarked by February 2, 2009 will be considered timely). Eligible periods generally include periods beginning prior to January 1, 2005.

Pursuant to the initiative, the Department of Taxation and Finance may waive certain penalties attributable to tax avoidance transactions, and will not seek civil, administrative or criminal action for those taxpayers participating in the initiative. Taxpayers can elect one of two options to participate, either with or without appeal rights.

The provisions of the initiative are quite detailed. In order to clarify some of the complexities of the program, attached please find Publication 672, New York State Department of Taxation and Finance.

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

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