

**2004 INNOVATIONS AWARDS PROGRAM**  
**Application Form**

1. Program Name: Abusive Tax Shelter Program
2. Administering Agency: California Franchise Tax Board (FTB)
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9. Please provide a two-sentence description of the program.

The program was created to aggressively address abusive tax shelters using an effective, multi-disciplinary approach. FTB's strategies and actions to date have resulted in legislation that significantly increased penalties for investors in and promoters of abusive tax shelters, increased statutes of limitations, and a program to encourage voluntary compliance that has brought in approximately \$500 million.

10. How long has this program been operational (month and year)? **Note: the program must be between 9 months and 5 years old on May 1, 2004 to be considered.**

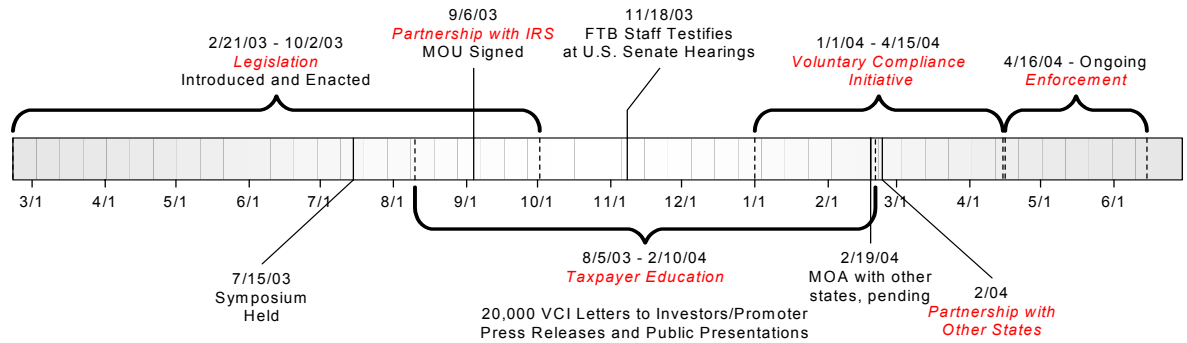
The program was conceptualized in January 2003 in anticipation of conforming to federal abusive tax shelter legislation that was never enacted.

11. Why was the program created? (What problem[s] or issue[s] was it designed to address?)

The program was created to stem revenue losses. FTB estimated that California was losing between \$600 million to \$1 billion annually due to abusive tax shelters.

12. Describe the specific activities and operations of the program in chronological order.

## Tax Shelter Timeline



### 13. Why is the program a new and creative approach or method?

The FTB abusive tax shelter program adopted a holistic response to combat the abusive tax shelter issue. This included gaining knowledge about shelters and how best to combat them, educating and working with policy makers to create the momentum for action, assisting with legislation, and implementing the enacted legislation. Additionally, after implementation, FTB is slated to review the effectiveness of our program to combat abusive tax shelters, to determine what, if any actions should be taken as a follow-up.

FTB's tax shelter program focuses on two primary goals:

- Bring taxpayers into compliance for past years either voluntarily or through enforcement;
- Serve as a first strike strategy to prevent the proliferation of abusive tax shelters in the future.

### 14. What were the program's start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

Approximately 30 auditors were redirected to this program. An augmentation for \$400,000 has been requested in 2/4/2005 to supplement redirected staff with expert consultants in the area of financial products and foreign markets. In addition, legislation is being submitted which creates a task force that includes 60 additional auditors and attorneys, and \$3.5 million in consultant services. This proposed legislation would be phased in during 2004/2005 and phased out in 2008/2009.

### 15. What are the program's annual operational costs?

Annual cost for the 30 staff currently being redirected totals \$2.9 million. Additional staff and consultants services in augmentation requests and legislation will bring the total costs to \$12.4 million per year at the height of the program.

16. How is the program funded?

General fund.

17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.

Legislation was required. Senate Bill 614 (Stats. 2003, Ch.656) and Assembly Bill 1601 (Stats. Ch.654) were passed seven months after FTB held an Abusive Tax Shelter Symposium.

18. What equipment, technology and software are used to operate and administer this program?

FTB's abusive tax shelter website was key to the program's success. The website allowed FTB to disseminate information in an extremely timely manner. The website contained the applicable sections of law, instructions for filing, FAQs, an email address for questions, and a telephone hot line for the Voluntary Compliance Initiative from January 1, 2004 to April 15, 2004.

19. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator's name, present address, telephone number and e-mail address.

Our program is an offshoot of the Internal Revenue's Offshore Voluntary Compliance Initiative that took place in late 2003.

20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?

Other states have had amnesty programs but no other state has specifically targeted abusive tax shelters by passing legislation with harsher penalties. Similar legislation at the federal level has stalled.

21. Has the program been fully implemented? If NO, what actions remain to be taken?

The program's voluntary compliance phase ends April 15, 2004. The enforcement phase begins on April 16, 2004.

22. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

The program's goal was to generate \$90 million. To date the program has generated over \$500 million. And the final accounting has yet to be completed.

FTB must now follow through with its enforcement efforts and have a successful post-VCI campaign. FTB needs to identify and audit those taxpayers who should have come in under the Voluntary Compliance Initiative.

23. How has the program grown and/or changed since its inception?

The program begins its enforcement phase April 16, 2004.

24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

The biggest obstacle would be getting similar legislation passed in a timely manner. The next issue would then be resources.

Add space as appropriate to this form. When complete, return to:

**CSG Innovations Awards 2004**

The Council of State Governments

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**DEADLINE:** All original applications must be received by April 20, 2004, to be considered for an Innovations Award for 2004.

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