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Treasury Proposes \$34 Bln Plan To Halt Leasing Scams

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By Rob Wells


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WASHINGTON -- The Treasury Department on Tuesday proposed a plan to close a \$34 billion tax loophole by cracking down on tax scams involving corporations leasing subways and other city infrastructure.

The proposal comes after Senate Finance Committee hearings last year where a witness described how U.S. corporations were receiving tax breaks for leasing subways and other municipal infrastructure in the U.S. and Europe.

The plan, contained in the Treasury's proposed fiscal year 2005 budget plan, would halt "abusive leasing transactions with tax-indifferent parties."

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Pamela Olson, assistant Treasury Secretary for tax policy, said the plan would close a tax loophole that's costing U.S. taxpayers about \$33.73 billion over 10 years.

The plan would be effective for transactions dated Jan. 1, 2004, and after. In addition, the Internal Revenue Service is auditing many such existing leasing transactions to see if they comply with tax rules.

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The leasing plan was the largest of a package of measures to crack down on tax shelters and simplify the tax code that will be released in President George W. Bush's fiscal year 2005 budget, set for release next month.

"These proposals would close loopholes and give the IRS the tools it needs to do the job," Treasury Secretary John Snow said in a statement.

In addition, the Treasury plans to pursue inflated donations of used cars to charities or intellectual property such as patents to universities. Olson said recently claimed donations have far exceeded the fair market value of the property donated.

The Treasury plan would require taxpayers to obtain appraisals for cars donated to charities, in some cases, and companies would be required to obtain appraisals for intellectual property. The proposal would raise about \$4.8 billion in tax revenue over the next decade.

Olson, in a briefing for reporters, didn't say whether last year's plan to overhaul tax-advantaged retirement savings accounts would be in the 2005 fiscal year budget. "The rest of the budget we'll be addressing later on," Olson said.

The Treasury's focus on combating tax-shelter abuses comes after the Senate Finance and the Senate Governmental Affairs committees held detailed hearings last year on this topic.

Tax shelters are transactions sold by investment banks, accounting firms and lawyers aimed at reducing or eliminating individual or corporate taxes. Some transactions are illegal while others skirt the boundaries of the tax laws. The scope of the problem is huge: the General Accounting Office estimates tax shelters reduced tax revenues by about \$33 billion since 1993, and possibly double that figure.

The leasing transaction was described before the Senate Finance Committee by an anonymous industry witness who handled such deals. The witness said the subway systems of Boston, Chicago, and Washington, D.C. have been leased and leased back to U.S. corporations to provide them with tax benefits.

Companies receive large tax deductions by leasing a major public facility, then leasing it back to the public authority that owns and operates it.

Other highlights of the administration's tax shelter crackdown package include:

- Eliminating abuse of foreign tax credits. The proposal would seek to prevent U.S. taxpayers from using foreign tax credits to cut their taxes on unrelated foreign income; the tax credits are supposed to be used to eliminate double taxation of foreign income. The plan would raise about \$1 billion over 10 years.

- Halting a tax shelter involving use of tax-exempt casualty insurance companies. Treasury said some small mutual casualty insurance companies are being misused to shelter investment income tax-free. The plan would raise \$1.2 billion in tax revenue over 10 years.

- Altering "529 College Savings Plans." The plan would clarify the law to eliminate abuses when some taxpayers change beneficiaries of such college savings plans. This would raise about \$194 billion over 10 years.

- Curtailing incentives for U.S. companies to move their headquarters overseas. The plan would tighten the deduction limitation for interest paid to related parties, such as through foreign related party debt. This would raise about \$3.1 billion over 10 years.

- Boosting penalties and improving disclosure rules for tax shelters.

The Treasury budget contains numerous simplifications of the tax code, such as consolidating higher education tax benefits into the "Hope" scholarship tax credit and an expanded lifetime learning tax credit. The plan also would simplify the definition of a child to qualify for various tax benefits.

The plan aims to simplify calculation of the capital gains tax for assets such as small business stock, real estate and collectibles.

The simplification measures would reduce federal revenues by \$5.8 billion over 10 years.

In addition, Treasury is proposing to boost the IRS budget by 4.8% to \$10.7 billion, which includes an extra \$300 million to boost enforcement.

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