

April 15, 2004

MEMORANDUM FOR LMSB LEADERSHIP TEAM

FROM: Bobby E. Scott (signed)  
Director, Natural Resources & Construction, LMSB

SUBJECT: Resolution of IRC section 461(f) Contested Liability Tax Shelter Issues

Tax examinations involving the IRC section 461(f) contested liability tax shelter issues described in Notice 2003-77 should be completed as expeditiously as possible using existing examination processes. There will be no settlement offer on this issue; taxpayers that do not agree with our proposals may request a hearing in Appeals.

Many of our ongoing examinations are resulting in agreements to a complete disallowance of the tax benefits promoted through this shelter. There have also been several instances where the taxpayer has filed an amended tax return to fully eliminate any deduction attributable to this shelter. As a general rule, this voluntary amended return resolves the issue for these taxpayers.

Please ensure that all agents and other personnel take appropriate action to continue to develop these issues according to standard examination procedures.