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## Special Connecticut Tax Settlement and Disclosure Programs

The Connecticut Department of Revenue Services (“DRS”) has published guidance on two programs that may provide significant relief to taxpayers with outstanding Connecticut tax liabilities: the Connecticut Tax Settlement Incentive Program and the Connecticut Offshore Voluntary Disclosure Program.

### Connecticut Tax Settlement Incentive Program

Pursuant to legislation enacted this year, the DRS is conducting a settlement incentive program from October 15, 2009, to December 15, 2009. An eligible participant in the program will qualify for a waiver of both civil penalties and 50% of the interest the participant owes in connection with an eligible tax liability, if the participant pays in full the outstanding tax and the remaining 50% of the interest on or before December 15, 2009. Since the statutory annual interest rate on most tax assessments is 12%, the program represents a significant savings opportunity.

To qualify for the program, a taxpayer must have been issued a tax bill by the DRS on or before August 31, 2009, and that bill must both have included interest and be unsatisfied. All taxes administered by the DRS (e.g., income tax, sales and use tax, corporation business tax) are eligible for the settlement program, except the motor carrier tax and International Fuel Tax Agreement taxes.

Eligible taxpayers are to receive from the DRS a Connecticut Tax Settlement Incentive Program Notification Letter, dated October 15, 2009. The letter will list the outstanding tax balance eligible for the program, and the settlement offer available to the taxpayer. If a taxpayer pays the settlement offer, the taxpayer will be deemed to have waived all administrative and judicial rights to appeal the underlying assessment, and to seek a refund of the settlement payment. In fact, as a condition to the settlement, the taxpayer must withdraw in writing any outstanding administrative



or judicial appeal on or prior to December 15, 2009. Accordingly, if the taxpayer has a pending appeal, or is considering a challenge to an assessment, the taxpayer should consult with a tax advisor prior to accepting the settlement offer. In addition, the settlement offer must be paid in full on or prior to December 15th in order to participate in the program; the DRS will not accept a payment plan.

### **Connecticut Offshore Voluntary Disclosure Program**

Similar to a program instituted by the Internal Revenue Service (“IRS”), but with certain notable differences, the DRS announced that it is conducting a voluntary disclosure program for offshore account holders through January 15, 2010. The program is designed to permit taxpayers to disclose foreign accounts or entities that have been utilized to avoid Connecticut tax obligations. Participants in the program can avoid civil penalties and generally eliminate the risk of criminal prosecution.

To make a voluntary disclosure, a taxpayer must submit a letter application to the DRS by January 15, 2010, that includes certain information and documentation regarding the foreign account or entity, the amount of potential

tax liability and a statement as to whether the taxpayer participated in the IRS Offshore Voluntary Disclosure Program. The application may be made on an anonymous basis through a taxpayer representative. The DRS will review the voluntary disclosure and notify the taxpayer or taxpayer representative whether the application is accepted. According to a DRS publication, voluntary disclosure can be made even if the taxpayer is presently under examination by the DRS. Reasonable payment plans may be accepted, and the DRS states that it will generally look favorably on a limited look-back period if the taxpayer had paid tax on the principal of the undisclosed foreign bank account. We caution any taxpayer interested in the program to consult with a tax advisor prior to filing an application with the DRS.

### **Questions or Assistance?**

For further information, contact any member of our State and Local Taxation Practice Group listed on the first page of this alert.

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