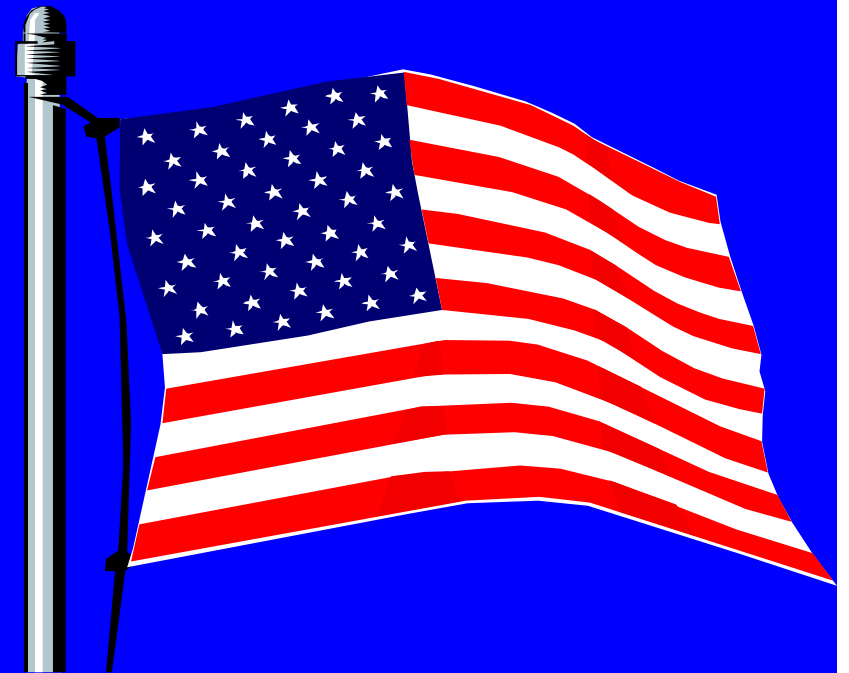


STEVEN L. CANTOR, P.A.

IRS OFFSHORE VOLUNTARY COMPLIANCE INITIATIVE

April 3, 2003

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What is the Offshore Voluntary Compliance Initiative (“OVCI”)?



What is the objective of the OVCI?



Who is eligible to participate in the OVCI?



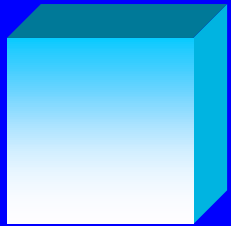
What type of information must be provided to the IRS?



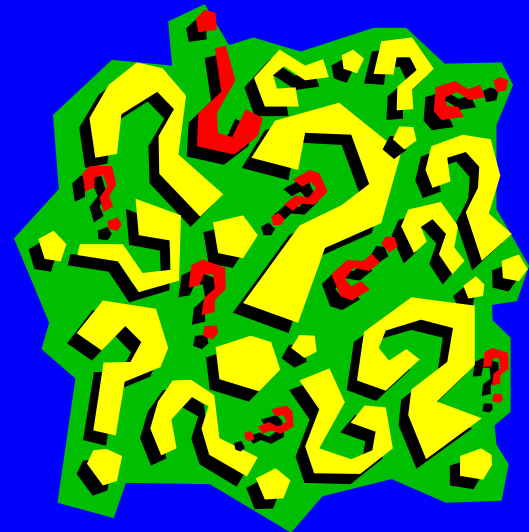
What are the advantages and disadvantages of participating in the OVCI?



What are the alternatives to participating in the OVCI?



What is the OVCI?



OVCII

- IRS Voluntary Compliance Practice revised on December 11, 2002
- IRS announced the implementation of the OVCII on January 14, 2003
- The OVCII provides an opportunity for eligible U.S. taxpayers who have avoided the payment of U.S. taxes through “offshore financial arrangements” to disclose their activities to the IRS and to limit their exposure to some penalties.

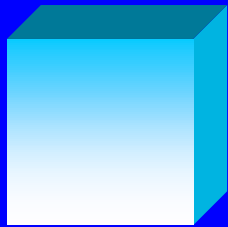
Offshore Financial Arrangements

- The use of foreign credit, debit and charge cards;
- Arrangements with banks, financial institutions, corporations, partnerships, trusts or other entities (or a combination thereof); and
- Other financial arrangements designed to avoid the payment of United States taxes.



Years Covered

- Tax years ending after December 31, 1998
- Previous years at the discretion of taxpayer
 - IRS option to audit previous years
 - IRS practice – 6 years



What is the objective of the OVCI?



OVCII Objectives

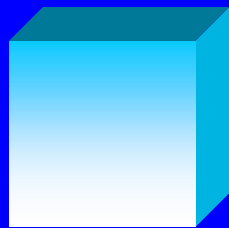
- Obtain information on existing offshore activities to inhibit continuing use and promotion of abusive arrangements
- Bring U.S. taxpayers back into compliance with the law
- Obtain information about and pursue promoters (via prosecution and/or injunctions) who facilitate U.S. tax evasion through the concealment of income and assets



Promoter

“A promoter is anyone who, usually for a fee, introduces people to offshore financial arrangements or assists in the establishment and use of offshore structures primarily for improper tax avoidance purposes. This would include those who market offshore plans or schemes to the public through books and seminars as well as private bankers, brokers, lawyers, accountants, and other financial professionals who provide services with regard to the formation or acquisition of offshore entities and financial accounts.”





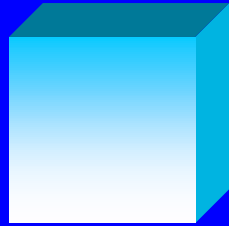
Who can participate in OVCI?



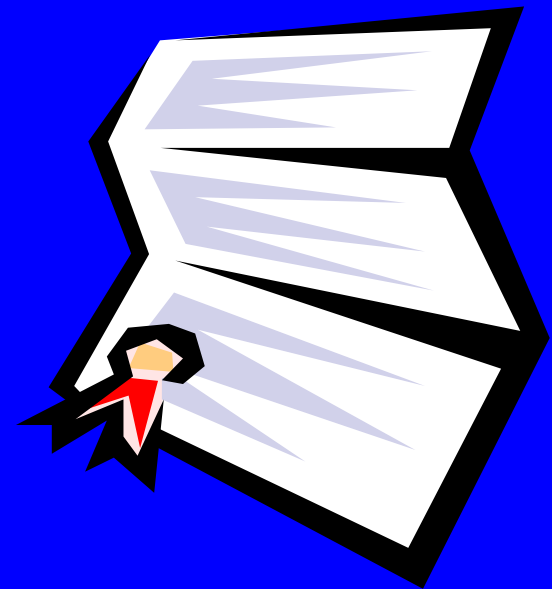
OVCII Eligibility Requirements

A U.S. taxpayer who has participated in an Offshore Financial Arrangement is eligible to participate in the OVCII if:

- The request to participate is timely (generally, before the IRS has the taxpayer under civil examination or criminal investigation, and before the IRS has information that directly points to taxpayer's failure to comply with U.S. tax laws – does not apply to previous investigations or examinations for closed years);
- The taxpayer is not a promoter of the use of Offshore Financial Arrangements or any other abusive transactions; and
- The taxpayer has not derived income from illegal sources or used the Offshore Financial Arrangement to support illegal activities not related to taxes.



**What type of
information must be
provided to the IRS?**



Application

A written request to participate must be submitted to the IRS on or before April 15, 2003, and such request must include:

- A statement that the taxpayer requests to participate and is eligible
- Taxpayer's name, identification number, address and telephone number
- Name and taxpayer identification number, if any, of any entity that the taxpayer used for Offshore Financial Arrangements, or that was the source of funds the taxpayer used to transfer to a foreign jurisdiction.

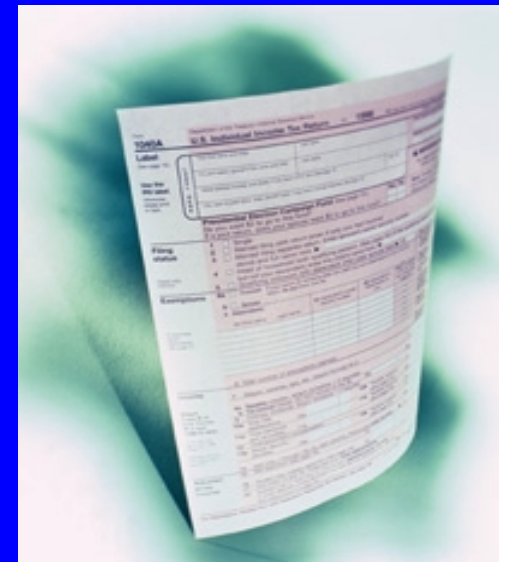
Application (Continued)

- Information regarding the taxpayer's introduction to Offshore Financial Arrangements, including:
 - contact information for parties who promoted or solicited the U.S. taxpayer's use of the Offshore Financial Arrangements
 - contact information for parties who assisted promoters to market Offshore Financial Arrangements
 - contact information for parties who told taxpayer about the Offshore Financial Arrangements
 - documents received regarding the Offshore Financial Arrangement

No extensions to file after April 15, 2003

Compliance

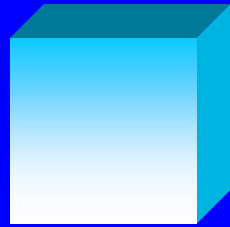
- IRS will respond to applications within 30 days of receipt
 - Preliminarily accepted (timely)
 - Rejected without explanation
- Closing Agreement
- Certain documents must be filed with the IRS within 150 days of the date of the IRS letter informing the taxpayer that the IRS has preliminarily determined the taxpayer to be eligible to participate in OVCI.



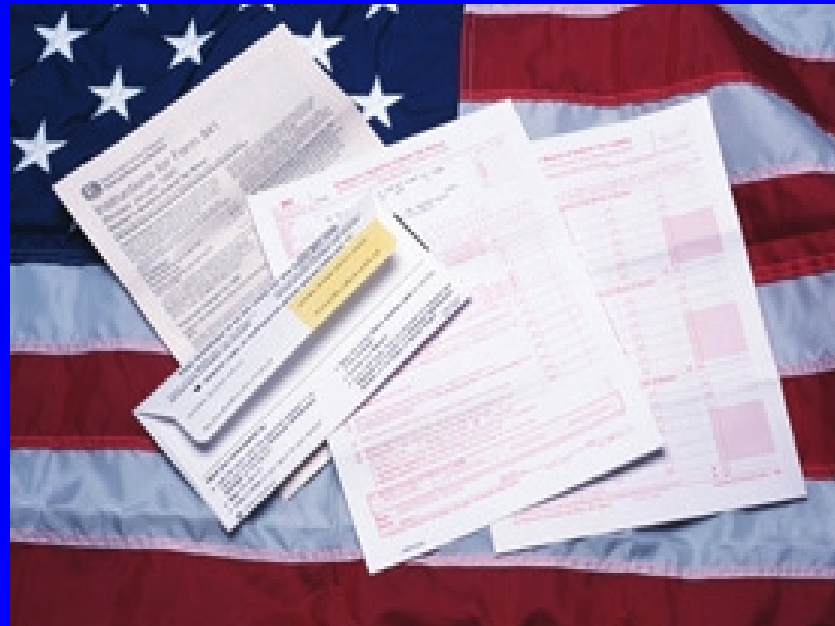
Compliance

The U.S. taxpayer must provide the IRS with the following:

- Copies of tax returns and information returns previously submitted to the IRS for the relevant years.
- Originals of the delinquent or amended tax and information returns, and an explanation of any previously unreported income or incorrectly claimed deductions or credits.
- Description of the Offshore Financial Arrangement and domestic accounts involved, and foreign assets controlled by the taxpayer or in which the taxpayer had ownership or a beneficial interest
- Description of the entities and nominees through which the taxpayer exercised control over foreign funds, assets and investments
- Description of the source of foreign funds, assets and investments owned or controlled by the taxpayer.
- Any materials or correspondence received by the taxpayer after the application to participate in the OVCI was submitted.



What are the alternatives to the OVCI?



ALTERNATIVES TO THE OVCI

- Filing amended or late returns with the IRS Service Center
- Voluntary Compliance Practice
- Assume risk of being caught



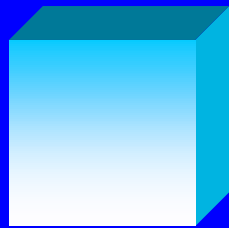
Voluntary Disclosure

A voluntary disclosure occurs when the communication is truthful, timely, complete and when:

- the U.S. taxpayer shows a willingness to cooperate (and does in fact cooperate) with the IRS in determining his or her correct tax liability; and
- the U.S. taxpayer makes good faith arrangements with the IRS to pay in full, the tax, interest and any penalties determined by the IRS.

Criminal Prosecution

- On December 11, 2002, the IRS revised their internal procedures used to determine whether a U.S. taxpayer's case should be referred for criminal prosecution in order to allow more U.S. taxpayers an opportunity to participate in OVCI.
- A U.S. taxpayer's timely, voluntary disclosure of a substantial unreported tax liability is an important factor in determining whether a U.S. taxpayer's case should be referred for criminal prosecution.



What are the advantages and disadvantages of participating in the OVCI?



OVCII Disadvantages

- New program without precedent
- May not be accepted into program after disclosure, without knowing why
- Potential for audit of previous years and for other issues
- Extension of statute of limitations
- No right to appeal (except if good faith disagreement on technical issue)
- Must pay all tax, penalties and interest in full (including amounts due for other reasons), unless other arrangements are agreed upon
- Must rat on any "promoters"

“A timely, voluntary disclosure of a substantial unreported tax liability, however, will not automatically guarantee immunity from criminal prosecution, but may result in prosecution not being recommended.”



OVCII Advantages

- Withdraw from the involvement of an abusive offshore activity
- Comply with the United States tax laws
- Reduce exposure to civil penalties
 - Waiver of civil fraud penalty (up to 75% of unpaid tax liability attributable to fraud)
 - Waiver of penalty for failure to file (Forms 5471, 5472, 926, 3520, 3520-A, 8865 and TD F 90-22.1)
 - No accuracy-related penalty if reasonable cause
- Better chance of avoiding criminal prosecution
- Handled privately rather than via public litigation
- Certain outcome
- Peace of mind

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