



# Instructions for Form 8275

(Rev. May 2001)

## Disclosure Statement

### General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

#### Purpose of Form

Form 8275 is used by taxpayers and income tax return preparers to disclose items or positions, except those taken contrary to a regulation, that are not otherwise adequately disclosed on a tax return to avoid certain penalties. The form is filed to avoid the portions of the accuracy-related penalty due to disregard of rules or a substantial understatement of income tax if the return position has a reasonable basis. It can also be used for disclosures relating to preparer penalties for understatements due to unrealistic positions or disregard of rules.

**Caution.** *The portion of the accuracy-related penalty attributable to the following types of misconduct cannot be avoided by disclosure on Form 8275:*

- Negligence
- Substantial understatement of tax on a tax shelter item.
- Substantial valuation misstatement under chapter 1.
- Substantial overstatement of pension liabilities.
- Substantial estate or gift tax valuation understatements.

#### Who Should File

Form 8275 is filed by individuals, corporations, pass-through entities, and income tax return preparers. If you are disclosing a position taken contrary to a regulation, use **Form 8275-R, Regulation Disclosure Statement**, instead of Form 8275.

For items attributable to a pass-through entity, disclosure should be made on the tax return of the entity. If the entity does not make the disclosure, the partner (or shareholder, etc.) may make adequate disclosure of these items.

#### Exception to filing Form 8275.

Guidance is published annually in a revenue procedure in the Internal Revenue Bulletin that identifies circumstances when an item reported on a return is considered adequate disclosure for purposes of the substantial understatement aspect of the accuracy-related penalty and for avoiding the preparer's penalty relating to understatements due to unrealistic positions. See the example. You do not have to file Form 8275 for items that meet the requirements listed in this revenue procedure.

**Example.** Generally, you will have met the requirements for adequate disclosure of a charitable contribution deduction, if you complete the contributions section of Schedule A (Form 1040) and supply all the required information. If you make a contribution of property other than cash that is over \$500, the form required by the Schedule A instructions must be attached to your return.

#### How To File

File Form 8275 with your original tax return. Keep a copy for your records. You may be able to file Form 8275 with an amended return. See Regulations sections 1.6662-4(f) and 1.6664-2(c)(3) for more information.

To make adequate disclosure for items reported by a pass-through entity, you must complete and file a separate Form 8275 for items reported by each entity.

**Carrybacks, carryovers, and recurring items.** If you disclose **carryover** items on a return in the year they originated, you do not have to file another Form 8275 for those items for the carryover tax years.

If you disclose **carryback** items on a return in the year they originated, you do not have to file another Form 8275 for those items for the carryback years.

However, if you disclose items of a **recurring nature** (such as depreciation expense), you must file Form 8275 for each tax year in which the item occurs.

#### Accuracy-Related Penalty

Generally, the accuracy-related penalty is 20% of any portion of a tax underpayment attributable to:

1. Negligence or disregard of rules or regulations.
2. Substantial understatement of income tax.
3. Any substantial valuation misstatement under chapter 1.
4. Any substantial overstatement of pension liabilities.

However, the penalty is 40% of any portion of a tax underpayment attributable to one or more gross valuation misstatements in 3 and 4 above if the applicable dollar limitation under section 6662(e)(2) is met.

Generally, you can avoid the disregard of rules and substantial understatement portions of the accuracy-related penalty if the position is adequately disclosed and the position has at least a reasonable basis. Reasonable basis is a significantly higher standard than the *not frivolous*

standard applicable to preparers. See Regulations section 1.6694-2(c)(2).

The penalty will not be imposed on any part of an underpayment if there was reasonable cause for your position and you acted in good faith in taking that position.

If you failed to keep proper books and records to substantiate items properly, you cannot avoid the penalty by disclosure. Also, you cannot avoid the penalty by disclosure if the position is frivolous.

#### Substantial Understatement

An **understatement** is the excess of:

- The amount of tax required to be shown on the return for the tax year **over**
- The amount of tax shown on the return for the tax year, reduced by any rebates.

There is a **substantial understatement** of income tax if the amount of the understatement for any tax year exceeds the greater of:

1. 10% of the tax required to be shown on the return for the tax year or
2. \$5,000 (\$10,000 for a corporation other than an S corporation or a personal holding company as defined in section 542).

For purposes of the substantial understatement portion of the accuracy-related penalty, the amount of the understatement will be reduced by the part that is attributable to:

- An item (other than a tax shelter item), for which there was substantial authority for the treatment claimed at the time the return was filed or on the last day of the tax year to which the return relates.
- An item (other than a tax shelter item) that is adequately disclosed on this form **and** there is a reasonable basis for the tax treatment of the item.

**Note.** *In no event will a corporation be treated as having a reasonable basis for its tax treatment of an item attributable to a multi-party financing transaction entered into after August 5, 1997, if the treatment does not clearly reflect the income of the corporation.*

- A tax shelter item (other than a corporate tax shelter item) if **(a)** there was substantial authority for the treatment at the time the return was filed or on the last day of the tax year to which the return relates, and **(b)** you reasonably believed that the tax treatment of the item was more likely than not the proper tax treatment.

**Note.** *For corporate tax shelter transactions, the only exception to the substantial understatement portion of the*

accuracy-related penalty is the reasonable cause exception. For more details, see section 1.6664-4(e).

**Tax shelter items.** A tax shelter, for purposes of the substantial understatement portion of the accuracy-related penalty, is a partnership or other entity, plan, or arrangement, whose principal purpose is to avoid or evade Federal income tax. For transactions after August 5, 1997, a tax shelter is a partnership or other entity, plan, or arrangement, with a *significant purpose* to avoid or evade Federal income tax.

A tax shelter item is any item of income, gain, loss, deduction, or credit that is directly or indirectly attributable to the principal or significant purpose of the tax shelter to avoid or evade Federal income tax.

### Income Tax Return Preparer Penalties

A preparer who files an income tax return or claim for refund is subject to a \$250 penalty for taking a position which understates any part of the liability if:

- The position has no realistic possibility of being sustained on its merits, and
- The preparer knew or reasonably should have known of the position, and
- The position is frivolous or not adequately disclosed on the return or on the appropriate disclosure statement.

The penalty will not apply if it can be shown that there was reasonable cause for the understatement and that the preparer acted in good faith.

In cases where any part of the understatement of the liability is due to a willful attempt by the return preparer to understate the liability, or if the understatement is due to reckless or intentional disregard of rules or regulations by the preparer, the preparer is subject to a \$1,000 penalty.

The preparer penalties generally may be avoided if a position is sufficiently disclosed and is not frivolous.

**Note.** For more information about the accuracy-related penalty and preparer penalties, and the means of avoiding these penalties, see Regulations sections 1.6662, 1.6664, and 1.6694.

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## Specific Instructions

Be sure to supply all the information for Parts I, II and, if applicable, Part III. Your

disclosure will be considered adequate if you file Form 8275 and supply the information requested in detail.

Use Part IV on Page 2 if you need more space for Part I or II. Indicate the corresponding part and line number from page 1. You may use a continuation sheet(s) if you need additional space. Be sure to put your name and identifying number on each sheet.

### Part I

**Column (a).** If you are disclosing a position contrary to a rule (such as a statutory position or IRS revenue ruling), you must identify the rule in column (a).

**Column (b).** Identify the item by name.

If any item you disclose is from a pass-through entity, you must identify the item as such. If you disclose items from more than one pass-through entity, you must complete a separate Form 8275 for each entity. Also, see **How To File** on page 1.

**Column (c).** Enter a complete description of the item(s) you are disclosing.

**Example.** If entertainment expenses were reported in **column (b)**, then list in **column (c)** "theater tickets, catering expenses, and banquet hall rentals."

If you claim the same tax treatment for a group of similar items in the same tax year, enter a description identifying the group of items you are disclosing rather than a separate description of each item within the group.

**Columns (d) through (f).** Enter the location of the item(s) by identifying the form number or schedule and the line number in **columns (d)** and **(e)** and the amount of the item(s) in **column (f)**.

### Part II

Your disclosure must include:

1. A description of the relevant facts and the nature of the controversy affecting the tax treatment of the item **or**
2. A concise description of the legal issues presented by these facts.

**Note.** Disclosure will not be considered adequate unless 1 and 2 above are provided using Form 8275. For example, your disclosure will not be considered adequate if you attach a copy of an acquisition agreement to your tax return to disclose the issues involved in determining the basis of certain acquired

assets. Also, if Form 8275 is not completed and attached to the return, the disclosure will not be considered valid even if the information in 1 and 2 above is provided.

### Part III

**Line 4.** Contact your pass-through entity if you do not know where its return was filed. However, for partners and S corporation shareholders, information for line 4 can be found on the Schedule K-1 that you received from the partnership or S corporation.

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**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information if you wish to use this form to make adequate disclosure to avoid the portion of the accuracy-related penalty due to a substantial understatement of income tax or disregard of rules, or to avoid certain preparer penalties. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

<b>Recordkeeping</b> . . . . .	3 hr., 35 min.
<b>Learning about the law or the form</b> . . . . .	1 hr.
<b>Preparing and sending the form to the IRS</b> . . . . .	1 hr., 6 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

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