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Treas. Reg. Section 1.6662-4(e)(2)

Substantial understatement of income tax . . .

(e) Disclosure of certain information.

(1) Effect of adequate disclosure. Items for which there is adequate disclosure as provided in this paragraph (e) and in paragraph (f) of this section are treated as if such items were shown properly on the return for the taxable year in computing the amount of the tax shown on the return. Thus, for purposes of section 6662(d), the tax attributable to such items is not included in the understatement for that year.

 (2) Circumstances where disclosure will not have an effect. The rules of paragraph (e)(1) of this section do not apply where the item or position on the return is-

(i) Does not have a reasonable basis (as defined in §1.6662-3(b)(3));

(ii) Is attributable to a tax shelter (as defined in section 6662(d)(2)(C)(iii) and paragraph (g)(2) of this section); or

(iii) Is not properly substantiated, or the taxpayer failed to keep adequate books and records with respect to the item or position.

(3) Restriction for corporations. For purposes of paragraph (e)(2)(i) of this section, a corporation will not 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.

. . .