

Client Alert

Current Issues Relevant to Our Clients

December 12, 2013

FY 2014 Subsidy Reduction of 7.2 Percent for Direct Pay Bonds Will Not Change Because of Budget Proposal

Congressional budget negotiators have agreed on a budget proposal to avoid another looming government shutdown. The budget proposal would increase discretionary spending for fiscal years 2014 and 2015, but would not affect the mandatory sequester amounts for Build America Bonds (BABs) (including Recovery Zone Economic Development Bonds (RZEDBs)) and other direct pay bonds, such as Qualified Zone Academy Bonds (QZABs), Qualified School Construction Bonds (QSCBs), Qualified Energy Conservation Bonds (QECBs) and New Clean Renewable Energy Bonds (NCREBs), for fiscal years 2014 and 2015.

As we reported earlier this year, the current sequester reduction for the federal fiscal year 2014 (October 1, 2013 through September 30, 2014) is 7.2 percent. This sequester amount will not be affected by the current budget proposal and payments processed by the IRS on or after October 1, 2013 and on or before September 30, 2014 will continue to be reduced by the sequestration rate of 7.2 percent, irrespective of when the amounts claimed by an issuer on any Form 8038-CP are filed with the IRS. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts such sequester payments. The sequester reduction does not apply to tax credit bonds for which the holder of the bonds receives a tax credit.

The current budget proposal purports to save \$28 billion by extending the mandatory sequester percentage in fiscal year 2021 to fiscal years 2022 and 2023.

Please note that Congress has not yet voted on the current budget proposal, but Congress is expected to pass the budget proposal and President Obama is expected to sign the bill once it is passed by Congress.

Issuers with any questions about the status of refunds claimed on Form 8038-CP (which the issuer files to receive the federal subsidy for direct pay bonds), including any sequester reduction, should contact IRS Customer Service Account Services at 1-877-829-5500.

For More Information

To discuss any topic covered in this alert, please contact your regular Chapman attorney or visit us online at Chapman.com.

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