

Chapman Client Alert

October 23, 2017

Current Issues Relevant to Our Clients

Withdrawal of Proposed Regulations Covering Political Subdivisions

The United States Treasury Department (“*Treasury*”) has withdrawn proposed regulations dealing with the definition of “political subdivisions” for purposes of the tax-exempt bond provisions of the federal tax law. Political subdivisions are divisions of state or local governmental units that can issue federally tax-exempt bonds. The proposed regulations were issued on February 23, 2016, and on April 4, 2016 [Chapman issued a client alert](#) describing those proposed regulations.

On October 2, 2017, Treasury issued a Second Report to the President on Identifying and Reducing Tax Regulatory Burdens under Executive Order 13789. The report recommends the withdrawal or revocation in whole or in part of eight tax regulations in order to eliminate or mitigate regulatory burdens.

Among the regulations to be eliminated is Proposed Treasury Regulation Section 1.103-1, which would have redefined political subdivisions in a manner that would have imposed significant additional burdens on issuers of tax-exempt and other tax-advantaged bonds.

Following the release of these proposed regulations, the American Bar Association (“*ABA*”), many other organizations, industry groups and political subdivisions provided comments to the Treasury. Virtually all of the comments submitted emphasized the unnecessary burden of these proposed regulations and most urged a withdrawal. David Cholst, a Chapman partner, chaired the comment project for the ABA. Those comments may be found on [the ABA website](#).

The proposed regulations were never effective. As anticipated by the report, the proposed regulations were formally withdrawn on October 20, 2017. The Treasury and the IRS may propose more targeted guidance after future study of the relevant legal issues.

[For More Information](#)

If you would like further information concerning the matters discussed in this article, please contact a member of our Public Finance Group or visit us online at chapman.com.

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