

PUBLIC FINANCE BULLETIN

IRS to Survey Post-Issuance Compliance for 501(c)(3) Bonds

The Internal Revenue Service has announced that it plans to send out a survey to 501(c)(3) organizations so that it can evaluate the policies and procedures used by such organizations to ensure the post-issuance compliance of their tax-exempt debt obligations with the requirements of federal income tax law.

Tax-exempt debt obligations are subject to various requirements of federal income tax law that must be satisfied both at the time of issuance of the debt and on an on-going basis throughout the term of the debt (and of any refinancing debt). Satisfaction of these requirements is a condition to the establishment and maintenance of the tax-exempt status of the interest payable on the debt for federal income tax purposes.

The survey will be in the form of a questionnaire with detailed questions relating to:

(1) Record retention requirements.

(2) Qualified use of bond-financed property requirements.

(3) Arbitrage yield restriction and rebate requirements.

(4) Debt management policies and procedures.

(5) Awareness of voluntary compliance and educational resources.

The survey will be sent to more than 200 exempt organizations based on an organization having reported an outstanding balance of tax-exempt debt on its 2005 Form 990 (Return of Organization Exempt from Income Tax). The instructions for the survey advise that, although there is no penalty for failing to participate in the compliance review, the IRS has the option of opening a formal examination of the organization regardless whether the organization completes the survey.

The full text of the IRS announcement together with the form of the survey is available at:

www.irs.gov/taxexemptbond/index.html.

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