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IRS Withholds Bond Subsidy from Austin

The city of Austin, Texas had to transfer funds into an account to make payments on Build America Bonds that were sold last year as the IRS withheld a subsidy amounting to \$617,284.

The reason for the retention of the subsidy by the IRS was the state capital's failure to pay its dues on payroll taxes according to a letter to the city treasurer, Art Alfaro dated February 15. The subsidy was meant for a debt service payment due March 1. Hence, Alfaro utilized reserve funds and transferred it into an account to make the payments on time.

However, the city still owes the IRS another \$35,000 and this may be withheld from another subsidy for a Sept. 1 payment. But Alfaro contends that the issue will be settled between city officials and the IRS long before that date.

As part of measure to stimulate the economy last year, Congress authorized the sale of Build America Bonds to the general public. These bonds bring along with them a direct 35% subsidy from the federal government given to the state governments or municipalities who issue the bonds rather than a tax exemption for the investors. To-date, a total of \$105.7 billion worth of taxable Build America Bonds were sold by state governments and municipal authorities since it launched. Out of the entire \$2.8 trillion municipal bond market, Build America Bonds are the fastest growing segment.

Perhaps in a knee-jerk reaction over the IRS' withholding of subsidy from Austin, Florida has stopped issuing Build America Bonds since March amidst fears that the IRS would withhold its subsidy should its municipality fail to pay the federal government for other programs like Medicaid.

One major advantage the municipalities have in selling Build America Bonds is that in certain cases, the subsidy from the federal government lowers their borrowing costs to lower that of bonds with interest income that isn't subject to federal tax. As such, Congress is considering extending the scheme which was originally due to expire by end of this year but with a lower subsidy under a pending jobs bill.

Thus far, the city of Austin has sold \$78.5 million of Build America Bonds to finance public works projects. The city also intends to sell debts worth \$200 million to raise funds for its electric system next month. Out of this amount, slightly more than half or \$100.9 million is expected to be from selling more Build America Bonds.

Darrin T. Mish is a veteran, nationally recognized tax attorney who has focused on providing IRS help to taxpayers for over a decade. He regularly travels the country training other attorneys, CPAs and enrolled agents on how to handle their toughest cases with the IRS. He is highly ranked among the top attorneys in the country, with an AV rating from Martindale-Hubbell and a perfect 10 on Avvo.com. Martindale-Hubbell has also honored him with a listing in their Bar Register of Preeminent Lawyers. He is a member of the American Society of IRS Problem Solvers and the Tax Freedom Institute. With clients on every continent but Antarctica, he has what it takes to solve your IRS problems no matter where you live in the world. If you would like more information about his practice and how he can help you, please call his office at (813) 229-7100 or toll free at 1-888-GET-MISH.