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IRS receives 30 Municipal Bond Whistleblower Claims

The Tax-exempt Bond Office of the IRS has received referrals of about 30 whistleblower claims of potential abuses in the municipal bond market, a number that is seen as 'fairly significant'. Before proceeding with investigations into these claims, each one undergoes a 'taint analysis' to determine if it qualifies as whistleblower material. Only after due analysis will the IRS tax-exempt bond office take action.

At present, the IRS has between 25 and 30 examinations ongoing on Build America Bonds (BABs). Ever since the BAB program began in 2009, the IRS has paid out about \$4 billion in subsidy payments. Since October 1, the IRS has received about 4,000 BAB subsidy payment requests.

In view of the slow pace of recovery of the economy, it is not surprising that the IRS is scrutinizing two areas of concern – governments that are on the verge of insolvency and transactions linked to property values – that could potentially affect municipal bonds. As such, the government has started a distressed government entities team to research and look into matters that affect debts issued by financially unstable governments.

At the same time, the tax-exempt bond office is looking at how floundering property values may affect deals, in particular tax-increment financing and payment-in-lieu-of-taxes (PILOT) bonds. The IRS intends to issue guidance on reissuance within the next few weeks.

In a related development, there have also calls to end the tax-exempt status of several or all new municipal bonds as part of tax reform measures, as municipal bonds are seen as an inefficient way to raise funds for state and local projects.

Proponents of revocation of tax-exemption of municipal bonds have said a tax-credit program might be a more efficient means of delivering cost savings to state and local government projects. A bill introduced last month by Sens. Ron Wyden (D-Ore) and Dan Coats (R-Ind) would eliminate new tax-exempt bonds in favor of tax-credit bonds.

There have also been calls for Congress to consider 3 issues in relation to municipal bonds tax-related reforms – the best means of delivering subsidies to state and local governments, the amount of subsidy and parameters of the program.

The American Bar Association's committee on tax-exempt financing has drafted a list of 12 proposals for the municipal bond market. Members have until July 1 to submit comments to the draft.