



TAX EXEMPT BONDS  
FY 2013  
WORK PLAN

TAX EXEMPT & GOVERNMENT ENTITIES  
INTERNAL REVENUE SERVICE



## TAX EXEMPT BONDS FY2013 WORK PLAN

### TAX EXEMPT & GOVERNMENT ENTITIES

### INTERNAL REVENUE SERVICE

The FY 2013 Work Plan identifies the operating priorities for the office of Tax Exempt Bonds (TEB) and provides program guidance and direction to all TEB employees. TEB's operating priorities align with the IRS 2009-2013 Strategic Plan by supporting two goals and a strategic foundation:

- Improve service to make voluntary compliance easier.
- Enforce the law to ensure everyone meets their obligation to pay taxes.
- Invest in high performance.

TEB operating priorities promote customer service by balancing enforcement, voluntary compliance, education, outreach, and other customer service goals with respect to the administration of federal tax laws applicable to tax-exempt bonds, tax credit bonds, and direct pay bonds. These operating priorities promote the following goals:

- Encourage greater participation in self-correction and voluntary compliance programs by promoting issuer post-issuance compliance monitoring and expanding voluntary compliance opportunities.
- Respond promptly and appropriately to abusive arbitrage motivated transactions and other impermissible tax schemes.
- Administer enforcement programs balancing a focus on examining bond issues with a relatively higher risk of noncompliance with broad examination coverage of each segment of the municipal bond market.
- Expand education and outreach resources available to issuers and other market stakeholders through web content, publications, as well as virtual and live presentations.
- Maintain a specially trained workforce through recruitment, training and technical development.
- Coordinate with Chief Counsel and other IRS offices in identifying and implementing enhancements to the content and processing of returns to improve information gathering and reduce filing burden.
- Gather and analyze information from internal sources (e.g., returns, questionnaires) and external sources (e.g., agency information, financial databases) to assess the compliance risk of individual bond issues and identify market trends and conditions which may foster noncompliance.
- Streamline programs and processes to improve overall quality and enhance the customer experience.
- Assist Treasury and Chief Counsel offices in identifying issues on which public guidance is needed, in developing regulations and other formal guidance, and on various legislative matters.



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The TEB senior management team consists of the Director and two senior managers who lead the Compliance & Program Management (CPM) and Field Operations (FO) programs. While the senior management team promotes collaboration and knowledge sharing amongst all employees, TEB work generally falls under the responsibility of either CPM or FO.

### GENERAL PROGRAM WORK

TEB general programs constitute a diverse array of work assigned throughout CPM and FO that support the IRS strategic goals and TEB operating priorities. General program work is categorized under enforcement, voluntary compliance, education and outreach.

Enforcement & Compliance Reviews – This work includes examinations of bond-related returns, compliance reviews prior to refundable credit payments for direct pay bonds, compliance check questionnaires, classification, referral analysis, as well as market data research and analysis. Highlights for FY 2013 include:

- Market segment examination work will focus on governmental bonds, qualified 501(c)(3) bonds, qualified small issue bonds, various exempt facility bonds including airports, solid waste and sewage, various disaster relief bonds, build America bonds, and qualified school construction bonds.
- Arbitrage focused examinations will cover various market segments including advance refunding bonds, notes, student loan bonds, as well as rebate payment verification and other examinations of Form 8038-T.
- Compliance check questionnaires evaluating the post-issuance compliance monitoring policies and procedures of issuers of governmental bonds.

Voluntary Compliance – The processing of requests under the TEB Voluntary Closing Agreement Program continues to be high priority assignment of CPM specialists. TEB also implements enhancements to the VCAP program to improve the customer experience and encourage issuer participation. Highlights for FY 2013 include:

- The completion of a high volume of requests submitted pursuant to Announcement 2012-14 relating to qualified student loan bonds.
- Publication of a new form to serve as an application checklist for submitting VCAP requests to assist issuers in ensuring their applications are complete.

Guidance, Education & Outreach – TEB continues to support the delivery of guidance and other educational assistance to issuers and other market stakeholders to promote voluntary compliance through a greater understanding of tax responsibilities and how to prevent unintended violations. Highlights for FY 2013 include:

- Continued support to Chief Counsel and Treasury offices in the publication of the proposed arbitrage regulations.
- New web-based educational resources relating to the TEB examination process.



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- Continued outreach to customers on TEB programs and compliance matters including on-going communication and information sharing with state officials, participation in stakeholder association conferences, as well as IRS sponsored teleconferences and webinars.

Personnel within CPM and FO are also assigned as members of various TEB teams relating to key areas of focus. These teams are generally responsible for sharing information across program areas of responsibility (e.g., forms/processing, classification, enforcement, voluntary compliance, education, outreach) to identify opportunities for program enhancement and improved customer service. For FY 2013, TEB personnel are assigned to the Financial Restructuring Compliance Team, Arbitrage Team, and Direct Pay Bonds Team.

TEB personnel are also assigned to support other TE/GE teams and to represent TEB in the coordination of other cross-functional efforts. For FY 2013, areas of focus for such teams and efforts include fraud, return preparer penalties, international tax matters, internal and external communications, as well as human capital planning and strategies.

### AREAS OF FOCUS

While TEB general program work and other project work ensures a broad coverage of compliance matters relating to tax-exempt bonds, tax credit bonds, and direct pay bonds, much of TEB's work in FY 2013 will center on the following areas of focus.

Abusive Transactions – TEB will continue to identify and respond to abusive arbitrage motivated transactions and other impermissible tax schemes. Highlights for FY 2013 include:

- Continued prioritization of enforcement work focused on pricing manipulation or false certifications relating to investments, hedges, or the bonds themselves.
- Continued use of civil penalty examinations under section 6700 and other statutory authorities on transaction participants or other parties involved in the abusive matter.
- Continued coordination with IRS Criminal Investigations and Fraud offices in the development of referral items relating to possible criminal or civil investigations.

Post-Issuance Compliance – TEB will continue to promote the use of post-issuance compliance monitoring practices (including the implementation of written procedures) as an effective means for issuers to meet their tax responsibilities and ensure the continued compliance of their obligations. Highlights for FY 2013 include:

- Publication of a report presenting research from TEB's compliance practices research project identifying the circumstances and transactional decisions that can lead to tax violations as well as factors issuers should consider in detecting and avoiding future noncompliance.



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Revisions to Publications 4077, 4078 and 4079 which provide an overview of the federal tax requirements applicable to governmental bonds, qualified 501(c)(3) bonds and other qualified private activity bonds, including expanded information on post-issuance compliance.

Arbitrage – The issuance of bonds for the primary purpose of diverting arbitrage will remain TEB’s highest compliance risk and enforcement focus. Highlights for FY 2013 include:

- Continued prioritization of enforcement work relating to arbitrage-motivated transactions, including those involving long investment periods or large investment amounts.
- Continued analysis of trading and other financial data from external informational databases to identify bond issues with higher risk of noncompliance.
- Continued prioritization of the processing of requests for recovery of overpayment of rebate to ensure the timely payment of refunds due to issuers.

Financial Restructurings – TEB will continue to identify and analyze potential tax compliance risks resulting from actions taken by issuers or other parties in response to their financial hardship or general market liquidity constraints. Highlights for FY 2013 include:

- Continued coordination with Federal, State & Local Governments, Indian Tribal Governments, and other IRS offices to identify and resolve compliance matters with insolvent or bankrupt governmental entities.
- Continued development of educational resources and targeted outreach efforts to issuers of financially distressed securities to assist them in understanding their tax responsibilities and how to avoid unintended adverse consequences for their obligations.

Governmental and Charitable Financings – TEB will continue to maintain a high priority on examination, voluntary compliance, education and outreach programs focused on governmental bonds and qualified 501(c)(3) bonds reflecting their relative prominence in the municipal bond market. Highlights for FY 2013 include:

- Continued examination presence focused on arrangements that increase noncompliance risk due to excessive private business use.
- Continued coordination and information sharing with Exempt Organizations, including the development and analysis of referral information.

Direct Pay Bonds – Direct pay bonds present unique compliance and fraud deterrence risks that require heightened levels of review. Highlights for FY 2013 include:

- Continued coordination of enforcement, voluntary compliance, and educational programs as well as forms, processing, and pre-payment review systems to ensure the effective administration of this high profile market segment.



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- Development of Internal Revenue Manual examination procedures for direct pay bonds.
- Continued support to Chief Counsel and Treasury offices in the development of technical and procedural guidance relating to direct pay bonds

### OTHER PRIORITY WORK & PROJECTS

In addition to general program work, TEB also annually identifies projects and other work, including training investments in TEB employees, that are considered high priority for the fiscal year. High priority projects for FY 2013 include:

Employee Training & Development – TEB will continue to invest in its employees by providing CPE courses on various technical topics utilizing virtual delivery methods. TEB will also continue to support employee development by encouraging employees to participate in leadership development programs as well as coordinating with other TE/GE offices in providing information sharing programs, mentoring opportunities, and cross-functional forums for discussing best practices.

Forms Enhancement Project – In response to the ACT's recommendations in its 2012 Report, TEB will begin a multi-year project to comprehensively update all Form 8038 series returns and other bond-related returns. Goals for the project include improving consistency across TEB returns, enhancing information gathering for trend analysis and classification purposes, and mitigating filing burden.

IRM Examination Procedures Update – TEB will complete its multi-year project to release a comprehensive update to the Internal Revenue Manual examination procedures for tax-exempt bonds, tax credit bonds, and direct pay bonds.

New CREBs Volume Cap Allocation Guidance – TEB will develop a notice describing a new process for allocating unused volume cap authority to issue new clean renewable energy bonds in coordination with Chief Counsel and Treasury offices. Similar to Notice 2012-48 relating to tribal economic development bonds, the new process will emphasize the allocation of volume cap authority to issuers who demonstrate a readiness to timely issue bonds to finance their proposed projects.

### EXTERNAL AGENCY SUPPORT & COORDINATION

TEB will continue to partner with other federal agencies and municipal market regulators to promote compliance across the market. Through memorandums of understanding and other less formal relationships, TEB will continue to engage in information sharing and other collaborative efforts within the limitations established under section 6103 of the Internal Revenue Code. For FY 2013, TEB's external agency partnerships will include:



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Department of Treasury – TEB will continue to support the missions of various Treasury offices related to the municipal bond market.

- TEB will continue to support the Office of Tax Policy in the development of guidance, the analysis of legislative proposals to identify administrative concerns relating to implementation, raising awareness of compliance trends and risks, and other matters.
- TEB will continue to coordinate with the Bureau of Public Debt with respect to the SLGS securities program to share market observations, assist in the development of regulatory guidance for the SLGS program, and to detect and deter abusive activities relating to early SLGS redemptions.
- TEB will continue to support other Treasury offices responsible for economic and financial policy, as necessary, to raise awareness of tax compliance matters pertaining to the municipal bond market.

Department of Justice – TEB will continue to prioritize its support and participation in on-going investigations of arbitrage motivated and other abusive transactions in collaboration with IRS Criminal Investigations.

Securities & Exchange Commission – Pursuant to its memorandum of understanding, TEB will continue to collaborate with the SEC on various matters including the sharing of information about market observations, compliance and enforcement programs, rulemaking and other regulatory developments, as well as identifying opportunities to partner on educational initiatives.

Municipal Securities Rulemaking Board – Pursuant to its memorandum of understanding, TEB will continue to access trading data and other information maintained by the MSRB in order to identify market trends and specific bond issues with higher risk of noncompliance. TEB will also continue to participate in MSRB sponsored regional conferences as part of its outreach efforts toward market professionals.