The Department of the TREASURY NEWS

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TREASURY ANNOUNCES REVISED PROPOSED RULES FOR
TAXING THE INTEREST ON INDUSTRIAL DEVELOPMENT BONDS

The Treasury Department today announced revised proposed rules governing the Federal income tax status of interest which State and local governments pay on industrial development bonds.

Treasury originally published proposed rules for the tax treatment of interest on industrial development bonds on January 14, 1969. Because of public comments and suggestions on the proposals, including comments received during a subsequent public hearing, the Department has made significant changes in its original proposals. Treasury therefore has decided to withdraw the earlier proposed rules and publish new ones.

The new proposed regulations will be published in the Federal Register of Saturday, June 5. Interested persons and organizations will have 30 days following publication to comment on the proposed rules and to request a public hearing on them. Because of widespread interest in the proposals, Treasury anticipates scheduling such a public hearing.

Under the Federal tax laws, a bond issued by a State or local government generally is treated as an "industrial development bond," and the interest paid on the bond is subject to Federal income tax, if (1) a "major portion" of the bond proceeds will be used in the business of a taxable person, and (2) if repayment of the bonds is secured by, or will be derived from, payments by such a taxable business for the use or purchase of property.

Although an obligation falls within this definition of an industrial development bond, the interest paid on it may nevertheless be exempt from Federal income tax if the bond proceeds are used in certain activities specified by law. These exempt activities include, for example, "the local furnishing of electric energy, gas, or water," and "air and water pollution control facilities."

Also exempt from Federal income tax is the interest paid on industrial development bond issues of less than $1 million, or in some cases less than $5 million.

Treasury's proposed regulations are designed to implement the industrial development bond provisions of the tax laws by defining the meaning and scope of the various terms and exemptions. For example, under the proposed rules, a "major portion" of the proceeds of a bond issue would be defined as generally being more than 25 percent. However, a State or local government could use a larger portion of bond proceeds to finance certain types of public utility facilities -- with interest on the bond remaining exempt from Federal income tax -- where not more than 25 percent of the output of the facility over its lifetime will be used in the trades or businesses of taxable persons. The output so used could range up to 50 percent for 15 years or one-half the useful life of the facility, whichever is shorter.

Among other provisions, the proposed rules also:

-- Define and give examples of "the local furnishing of electric energy, gas, or water," and "air and water pollution control facilities."

-- Specify that to qualify as an exempt activity, a facility must serve or be available for general public use, or be a part of a facility of this type.

-- Explain the manner of determining whether bond issues meet the exemption for those of less than $1 million or $5 million.

-- Provide a "major portion" rule of 35 percent for governmental obligations which were issued, or were authorized in specific dollar amounts by a legislative act or ordinance, before publication of Treasury's proposed rules.

Comments on the proposed regulations, and requests for a public hearing on them, should be submitted in writing to the Commissioner of Internal Revenue, Attention: CC:LR:T, Washington, D.C., 20224, within 30 days after publication in the Federal Register.

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