

INDUSTRIAL DEVELOPMENT BOND PROPOSALS

Present law

Interest income received from State and local government obligations generally is exempt from taxation under the individual and corporation tax. Tax-exempt status is denied, however, to arbitrage bonds and industrial development bonds. There are several specific, statutory exemptions from the limitation against industrial development bonds.

An industrial development is an obligation from which the proceeds will be used in a trade or business, and repayment of principal and interest on the bond is secured by activities or property of a trade or business.

The list of statutory exemptions includes "sewage or solid waste disposal facilities or facilities for the local furnishing of electric energy or gas" and "facilities for the furnishing of water for any purpose" if the water is (or will be) available to members of the general public and the facilities are operated by a governmental unit or its water rates are regulated by a governmental unit or its urgency. Local furnishing can include furnishing solely within an area of 2 contiguous countries or a city and 1 contiguous county. The general public, for purposes of the water facility exemption include an electric utility, and industrial, agricultural or commercial users.

Proposals

1. Hydroelectric facilities
 - a. Low-head hydroelectric power.

Allow industrial development bonds to be issued for hydroelectric projects which would generate up to 25,000 kilowatts (25 megawatts) of electricity.

b. Unlimited size hydroelectric power

Add to the list of exemptions, facilities for the production of electric energy by water.

Both proposals would override limitations in present law which require local furnishing and furnishing to the general public.

2. Solid waste disposal and electric energy

This proposal would extend the meaning of solid waste disposal facility to include any facility to recover material from solid wastes and any facility, operated on or behalf of the governmental unit, to produce gas, heat or energy directly or indirectly from the solid waste disposal process located at or adjacent to a solid waste disposal facility.

Under the proposal, tax exemption would be available even if the Federal Government will use the materials or energy from the facility and payment of interest and principal will be derived to some degree from payments by an agency of the Federal Government.

3. Biomass

Amend the exemption for sewage and solid waste disposal facilities to cover biomass. For example, amend the exemption to read, "sewage, solid waste and biomass disposal facilities..."