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Panel Suggests How IRS Tax-Exempt Bond Office Can Increase Efficiency.

WASHINGTON - An advisory panel has made recommendations on how the Internal Revenue Service's tax-exempt bond office can increase its efficiency and effectiveness in a time of dwindling resources and increased market complexity.

The tax-exempt bond panel of the IRS' Advisory Committee on Tax-Exempt and Government Entities presented its report on balancing resources and needs at the committee's public meeting here on Wednesday. The panelists who worked on the report were Lorraine Tyson, a partner at Pugh, Jones & Johnson in Chicago, Katherine Newell, director of risk management for the New Jersey Educational Facilities Authority, and Floyd Newton, a partner at King & Spalding in Atlanta.

TEB director Rebecca Harrigal said the panel's recommendations are "very helpful" and in line with what the office is already doing.

The municipal bond market has become more complex over the years, but issuers and TEB are facing budgetary challenges. The number of TEB staff has declined since 2009, and the money available for outreach programs and employee training has decreased. "These challenges point to the need for a re-examination of many of the 'old' ways of doing things," the panel said in the report.

The panelists recommended that TEB improve its efficiency and effectiveness by adapting two IRS programs currently used in other divisions of the service: the Industry Issue Resolution (IIR) program and the Industry Director Directive (IDD) program.

Under the IIR program, stakeholders have the chance to request published or administrative guidance on frequently burdensome or disputed tax issues. The requests are reviewed, and the IRS may then recommend that an issue be included on its priority guidance plan. If an issue is selected, a team that includes IRS and Treasury representatives is formed to work on the matter, according to the report.

Muni market groups have previously submitted comments that the IRS and the Treasury Department have taken into consideration. "However, adoption by TEB of the IIR program would include procedures such as prioritizing issues, setting due dates for response and interacting with industry experts that provide a framework for resolving issues more quickly and effectively," the report said. "In addition, the IIR program could provide a framework for identifying ways of streamlining audits of issues within TEB's jurisdiction."

The IDD program is used to provide guidance to ensure that tax administration is consistent and to address matters related to internal operations. IDD's have implemented procedures that reduce the documentation that taxpayers need to produce in audits and that examiners need to review, according to the report.

The panel believes that "TEB Director Directives" could be used to streamline the audit process and other interactions between TEB and issuers. For example, a directive on arbitrage rebate audits

could identify bonds that shouldn't be subject to these types of examinations because they were issued when interest rates were at record lows. The directive could also outline the planning and conduct of audits in ways that would reduce the time and resources that the issuer and IRS agent need to use, according to the report.

Harrigal said that TEB is already looking at ways to use IDD's and will look at the panel's suggested directive about rebate audits.

The report recommends that TEB consider using written compliance examination requests as a way to determine which bond issues should be audited, and that TEB narrow the scope of materials it requests in audits. TEB currently selects bond issues in various market segments to be audited and then often examines all potential issues raised by a bond transaction rather than focusing on particular problems, which is inefficient and time-consuming, according to the panel. Also information that issuers provide to the IRS on certain forms do not provide TEB with enough information to focus its examination efforts easily, the panel said.

Mark Scott, a former TEB director who now has a law practice where he represents whistleblowers, said after the meeting that limited-scope audits are good when the IRS has already identified a specific problem and wants to see if it persists in other cases, but that it's hard to identify previously unidentified problems through these types of audits. He said he thinks focusing on audits based on tips is the best way for the IRS to find bad situations.

The panel also had recommendations for the training of TEB employees. For example, the report said it would be beneficial for market participants to be involved in efforts to train TEB personnel.

Additionally, the panel suggested that TEB implement knowledge management tools, such as creating an online "experience database" of TEB personnel who can be contacted for subject-matter expertise when needed.

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