

Bond Case Briefs

Municipal Finance Law Since 1971

IRS Official Tells Issuers to Monitor Compliance.

PROVIDENCE, R.I. – Municipal issuers should monitor bond activity for compliance violations no matter how inadvertent, an Internal Revenue Service tax law specialist for tax-exempt bonds said Tuesday.

“It’s up to municipal issuers and conduit borrowers to identify and report these violations to assure continued tax-exempt borrowing. Otherwise, problems arise,” James Held said at The Bond Buyer’s Healthcare and Higher Education Finance Conference.

Institutional finance professionals and other muni market participants are discussing the challenges of these two sectors at the Omni Providence Hotel.

Many compliance failures related to 501(c)(3) nonprofit issuance are inadvertent in nature, according to Held, often because of misunderstanding legal complexities and lack of attention.

“We also know that bond counsel and other advisors are not around every day,” he added.

Self-correction steps are available, according to Held.

“The clock starts ticking on the day of the violation, not the day of discovery,” he said. Such steps could include redemption or defeasance of the non-qualified bonds or using the funds for alternative qualified use.

The federal tax code requires the use of 95% of the proceeds of the tax-exempt bonds toward the exempt activities of the 501(c)(3) organization. “We call it the 95% test,” said Held.

Ownership violations, according to Held, can involve a sale of a facility, a change in facility or a change in use.

“If the bonds are still outstanding, there could be a problem,” he said.

Held works with the IRS’ voluntary compliance, educational guidance and compliance analysis and review programs related to tax-exempt bonds, tax credit bonds and Build America Bonds. He works on self-reporting cases, and compliance initiatives within the muni bond market.

Earlier Tuesday, Rhode Island General Treasurer Seth Magaziner said his state is transitioning from low-cost jobs and manufacturing to an economy based on technology innovation.

“The good news is that we are well-positioned and you already see signs of that transformation,” he said in his morning keynote.

Magaziner, elected last fall after predecessor and fellow Democrat Gina Raimondo won the governor’s race, cited Ivy League Brown University’s \$3 billion capital campaign with its emphasis on life sciences and biotech and the strong presence of Rhode Island School of Design.

“Industrial design is one of the most important disciplines,” he said.

THE BOND BUYER

BY PAUL BURTON

OCT 27, 2015 11:57am ET

Copyright © 2025 Bond Case Briefs | bondcasebriefs.com