

Bond Case Briefs

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IRS Rules on Tax-Exempt Status of Alaska Railroad Bonds.

SUMMARY BY TAX ANALYSTS

The IRS has ruled (Rev. Rul. 2026-4) that the private activity bond rules don't apply to tax-exempt bonds issued by the Alaska Railroad Corporation to finance the improvement, construction, or acquisition of certain property, although the bonds must satisfy other requirements to qualify for tax exemption under section 103(a).

The federal government built a railroad in Alaska for the transportation and development needs of the state and later transferred the assets of that railroad (state railroad) to the state under the Alaska Railroad Transfer Act of 1982 (Railroad Act).

The railroad corporation intends to issue financing bonds for property, including infrastructure, tracks, airports, and highways, located within Alaska as part of a project to extract, process, liquify, and transport natural gas (LNG project).

The IRS concluded that because the railroad corporation's engagement in these activities is consistent with and related to the operation of the state railroad as contemplated by the Railroad Act, the bonds issued by the railroad corporation are railroad-related bonds and are not required to satisfy the rules in sections 141 through 147 to qualify as tax-exempt bonds under section 103(a).

The IRS advised that its conclusion is limited to bonds issued by the railroad corporation to finance the construction, acquisition, and improvement of the property, all of which must be located within the state and directly related to the LNG project. The agency cautioned that its conclusion wouldn't apply if the railroad corporation were to issue bonds to finance construction of a facility that uses natural gas generated by the LNG project but has no other relationship to the LNG project because such a facility does not qualify as property.

The IRS further advised that because the Railroad Act exempts railroad-related bonds only from the rules in sections 141 through 147 governing private activity bonds, railroad-related bonds must still satisfy the rules in sections 148, 149, and 150 to qualify as tax-exempt bonds under section 103(a).

[Read Rev. Rul. 2026-4](#)