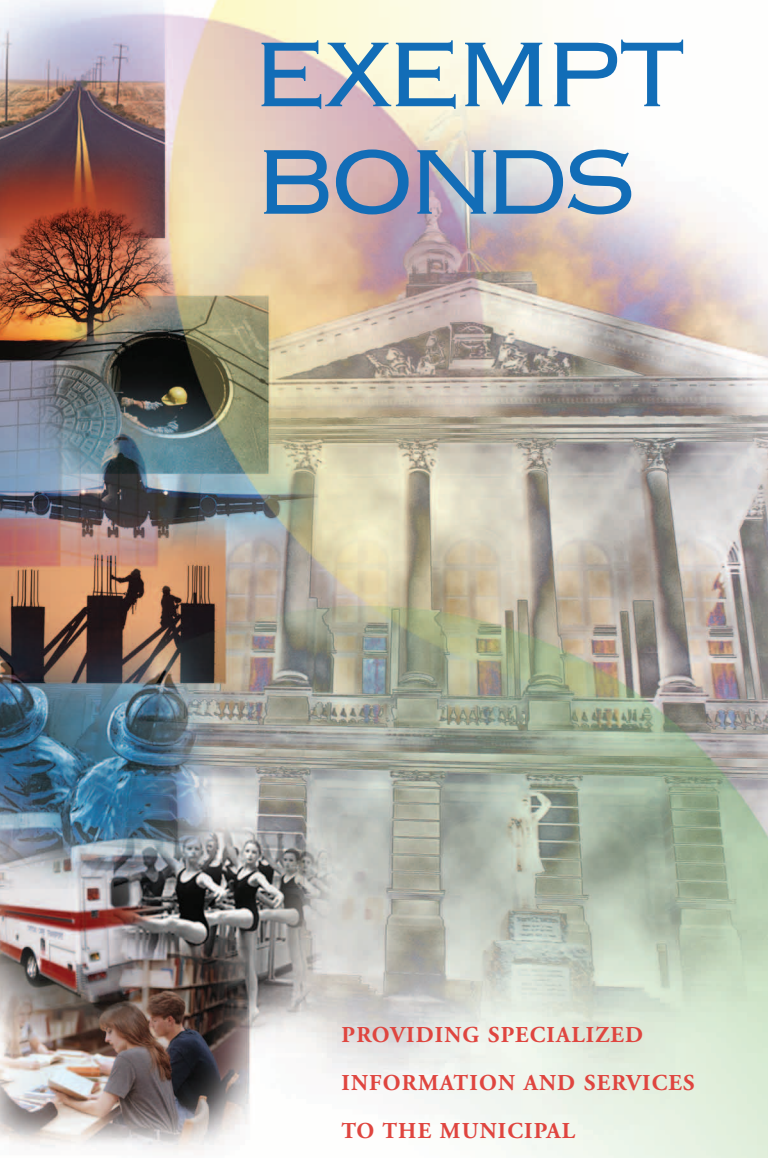


INTERNAL REVENUE SERVICE
Tax Exempt and Government Entities (TE/GE)

office of

TAX EXEMPT BONDS



**PROVIDING SPECIALIZED
INFORMATION AND SERVICES
TO THE MUNICIPAL
FINANCE COMMUNITY**

TAX EXEMPT BONDS (TEB)

Tax Exempt Bonds (TEB) offers specialized information and services to the municipal finance community. Municipal bonds provide tax-exempt financing for the furtherance of governmental and qualified purposes including the construction of airports, hospitals, recreational and cultural facilities, schools, water infrastructure, road improvements, as well as facilities and equipment used in providing police, fire and rescue services.

This TEB brochure highlights our unique services, including the Voluntary Closing Agreement Program and our customer education and outreach efforts, which foster a better understanding of the applicable provisions of the federal tax law.

FIELD OPERATIONS

TEB Field Operations is responsible for identifying and correcting noncompliance with fairness and the highest level of integrity. Examinations are conducted at the issuer level consistent with the continuing policy to avoid taxing bondholders. Field Operations is also active in assisting in the delivery of outreach assistance to the municipal finance community as part of the TEB goal to help issuers understand the tax law to ensure up-front voluntary compliance.





OUTREACH, PLANNING AND REVIEW

TEB Outreach, Planning and Review (OPR) is primarily responsible for the development and coordination of both the Voluntary Closing Agreement Program and the Customer Education and Outreach Program. OPR also provides technical assistance and review for Field Operations and coordinates with the IRS Office of Chief Counsel in the development of formal legal guidance to the municipal finance community.

VOLUNTARY CLOSING AGREEMENT PROGRAM

(VCAP) — This program provides an opportunity for state and local government issuers, conduit borrowers, and other parties to a bond transaction to voluntarily come forward to OPR to resolve violations of the Internal Revenue Code through closing agreements with the IRS. The specific details of VCAP are outlined in Notice 2001-60, 2001-40 I.R.B. 304, published October 1, 2001. This notice is available through the IR Bulletin at www.irs.gov or through the TEB Web site at www.irs.gov/bonds.

For more information about VCAP or to submit a VCAP request, contact Clifford Gannett, Manager of Tax Exempt Bonds, Outreach, Planning and Review, in Washington, DC, at (202) 283-9798.

CUSTOMER EDUCATION AND OUTREACH

PROGRAM — OPR has specially trained staff to develop educational materials on tax-exempt bond topics and to participate in conferences, seminars, and workshops to share these materials and the latest tax law developments. TEB has a number of tax publications and other tax-exempt bond information materials that you can access online at www.irs.gov/bonds. Materials include:

■ **Publication, 3755, *Tax Exempt Bonds – filing requirements.***

This brochure is a quick reference guide to common filing requirement questions of tax-exempt bond customers. It covers the types of returns required to be filed (including Forms 8038, 8038-G, 8038-GC, and 8038-T), due dates for filing, procedures for filing a late return, and common errors to look out for when you file. Order Publication 3755 free through the IRS at (800) 829-3676, or download at www.irs.gov.

■ **Compliance Guides for Tax Exempt Bonds.** This series of publications (availability beginning in mid 2003) will guide issuers, conduit borrowers, and other parties to a bond transaction through the major compliance requirements related to the issuance and management of tax-exempt bonds from pre-issuance through maturity and redemption. The series will include four publications addressing the unique tax law requirements applicable to tax-exempt governmental bonds, private activity bonds, 501(c)(3) bonds, and bonds issued by Indian tribal governments.

■ **Continuing Professional Education (CPE) Technical Instruction Program.** CPE technical articles on TEB-related topics, published by the IRS, are available through the TEB Web site.

■ **Tax Exempt Bond Tax Kit.** This collection of forms with instructions, revenue procedures and notices, can be downloaded from the TEB Web site.

Through www.irs.gov/bonds, you can also access educational resources for an overview of the tax law applicable to tax-exempt bonds as well as TEB's student instruction text.



Tax-exempt bonds are valid debt obligations of state, local, or Indian tribal governments — the interest on which is tax-exempt. This means that the interest paid to bondholders is not includable in their gross income for federal income tax purposes.

The tax-exempt status of municipal obligations is not, however, a right to which the municipal finance community is entitled. In *South Carolina v. Baker*, 485 U.S. 505 (1988), the U.S. Supreme Court stated:

[T]he owners of state bonds have no constitutional entitlement not to pay taxes on income they earn from state bonds, and states have no constitutional entitlement to issue bonds paying lower interest rates than other issuers.

The economic benefit of this tax-exempt status is a privilege the federal government provides to governmental issuers as a matter of policy. Yet, this economic benefit comes with a cost. The Department of the Treasury will realize an estimated loss of federal tax revenue of almost \$29 billion for the year 2003 alone.

The tax-exempt status of bonds remains throughout the life of the bonds provided that all applicable federal tax laws are satisfied. Various restrictions apply under the Internal Revenue Code including restrictions against issuing bonds for the purpose of earning arbitrage profits or for the benefit of private persons. Other requirements, including information filings, must also be met.

**TAX EXEMPT BONDS
WEB SITE AT**

www.irs.gov/bonds

**TEB CUSTOMER ACCOUNT
SERVICES TOLL-FREE AT**

(877) 829-5500

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