

§ 1.147(b)-1

26 CFR Ch. I (4-1-01 Edition)

§ 1.147(b)-1 Bond maturity limitation-treatment of working capital.

Section 147(b) does not apply to proceeds of a private activity bond issue used to finance working capital expenditures.

[T.D. 8476, 58 FR 33515, June 18, 1993]

§ 1.148-0 Scope and table of contents.

(a) *Overview.* Under section 103(a), interest on certain obligations issued by States and local governments is excludable from the gross income of the owners. Section 148 was enacted to minimize the arbitrage benefits from investing gross proceeds of tax-exempt bonds in higher yielding investments and to remove the arbitrage incentives to issue more bonds, to issue bonds earlier, or to leave bonds outstanding longer than is otherwise reasonably necessary to accomplish the governmental purposes for which the bonds were issued. To accomplish these purposes, section 148 restricts the direct and indirect investment of bond proceeds in higher yielding investments and requires that certain earnings on higher yielding investments be rebated to the United States. Violation of these provisions causes the bonds in the issue to become *arbitrage bonds*, the interest on which is not excludable from the gross income of the owners under section 103(a). The regulations in §§1.148-1 through 1.148-11 apply in a manner consistent with these purposes.

(b) *Scope.* Sections 1.148-1 through 1.148-11 apply generally for purposes of the arbitrage restrictions on State and local bonds under section 148.

(c) *Table of contents.* This paragraph (c) lists the table of contents for §§ 1.148-1, 1.148-2, 1.148-3, 1.148-4, 1.148-5, 1.148-6, 1.148-7, 1.148-8, 1.148-9, 1.148-10 and 1.148-11.

§ 1.148-1 Definitions and elections.

- (a) In general.
- (b) Certain definitions.
- (c) Definition of replacement proceeds.
 - (1) In general.
 - (2) Sinking fund.
 - (3) Pledged fund.
 - (4) Other replacement proceeds.
 - (d) Elections.
 - (e) Investment-type property.

§ 1.148-2 General arbitrage yield restriction rules.

- (a) In general.

- (b) Reasonable expectations.
 - (1) In general.
 - (2) Certification of expectations.
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 - (1) In general.
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 - (1) In general.
 - (2) General 3-year temporary period for capital projects and qualified mortgage loans.
 - (3) Temporary period for restricted working capital expenditures.
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 - (5) Temporary period for replacement proceeds.
 - (6) Temporary period for investment proceeds.
 - (7) Other amounts.
- (f) Reserve or replacement funds.
 - (1) General 10 percent limitation on funding with sale proceeds.
 - (2) Exception from yield restriction for reasonably required reserve or replacement funds.
 - (3) Certain parity reserve funds.
- (g) Minor portion.
- (h) Certain waivers permitted.

§ 1.148-3 General arbitrage rebate rules.

- (a) In general.
- (b) Definition of rebate amount.
- (c) Computation of future value of a payment or receipt.
 - (d) Payments and receipts.
 - (1) Definition of payments.
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 - (3) Special rules for commingled funds.
- (e) Computation dates.
 - (1) In general.
 - (2) Final computation date.
- (f) Amount of required rebate installment payment.
 - (1) Amount of interim rebate payments.
 - (2) Amount of final rebate payment.
 - (3) Future value of rebate payments.
 - (g) Time and manner of payment.
 - (h) Penalty in lieu of loss of tax exemption.
 - (1) In general.
 - (2) Interest on underpayments.
 - (3) Waivers of the penalty.
 - (4) Application to alternative penalty under § 1.148-7.
 - (i) Recovery of overpayment of rebate.
 - (1) In general.
 - (2) Limitations on recovery.
 - (j) Examples.
 - (k) Bona fide debt service fund exception.

§ 1.148-4 Yield on an issue of bonds.

- (a) In general.
- (b) Computing yield on a fixed yield issue.
 - (1) In general.
 - (2) Yield on certain fixed yield bonds subject to mandatory or contingent early redemption.