

in section 147 for qualified private activity bonds that permit use of proceeds to acquire land for environmental purposes (section 147(c)(3)), permit use of proceeds for certain rehabilitations (section 147(d) (2) and (3)), prohibit use of proceeds to finance skyboxes, airplanes, gambling establishments and similar facilities (section 147(e)), and require public approval (section 147(f)), but not for the rules limiting use of proceeds to acquire land or existing property under sections 147(c) (1) and (2), and (d)(1).

(c) *Effective dates.* For effective dates of §§1.147-0 through 1.147-2, see §1.141-16.

[T.D. 8712, 62 FR 2304, Jan. 16, 1997]

#### § 1.147-2 Remedial actions.

The remedial action rules of §1.142-2 apply to the rules in section 147 for qualified private activity bonds that permit use of proceeds to acquire land for environmental purposes (section 147(c)(3)), permit use of proceeds for certain rehabilitations (section 147(d) (2) and (3)), prohibit use of proceeds to finance skyboxes, airplanes, gambling establishments and similar facilities (section 147(e)), and require public approval (section 147(f)), for this purpose treating those private activity bonds subject to the rules under section 147 as exempt facility bonds and the qualifying purposes for those bonds as exempt facilities.

[T.D. 8712, 62 FR 2304, Jan. 16, 1997]

#### § 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 ear-

lier, 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.
  - (c) Intentional acts.
  - (d) Materially higher yielding investments.
    - (1) In general.
    - (2) Definitions of materially higher yield.
    - (3) Mortgage loans.
    - (e) Temporary periods.
      - (1) In general.
      - (2) General 3-year temporary period for capital projects and qualified mortgage loans.
      - (3) Temporary period for restricted working capital expenditures.
      - (4) Temporary period for pooled financings.
      - (5) Temporary period for replacement proceeds.
      - (6) Temporary period for investment proceeds.
      - (7) Other amounts.
      - (f) Reserve or replacement funds.