

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.

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- (b) Certain definitions.
- (c) Definition of replacement proceeds.
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§ 1.148-2 General arbitrage yield restriction rules.

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- (b) Reasonable expectations.
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- (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.
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- § 1.148-3 General arbitrage rebate rules.*
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 - (b) Definition of rebate amount.
 - (c) Computation of future value of a payment or receipt.
 - (d) Payments and receipts.
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 - (1) Amount of interim rebate payments.
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 - (5) Special aggregation rule treating certain bonds as a single fixed yield bond.
 - (6) Examples.
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 - (e) Value of bonds.
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 - (2) Qualified hedge defined.
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 - (4) Certain variable yield bonds treated as fixed yield bonds.
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- (1) Expenditures in general.
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 - (4) De minimis rule.
 - (5) Special definition of reasonably required reserve or replacement fund.
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 - (c) 6-month exception.
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 - (2) Additional period for certain bonds.
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 - (4) Series of refundings.
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 - (1) General rule.
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 - (e) 2-year exception.
 - (1) General rule.
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 - (3) Definitions.
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 - (3) Relation of transferred proceeds rule to universal cap rule.
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 - (2) Rules on allocations of multipurpose issues.
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 - (2) Abusive arbitrage device defined.
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- (2) Permanent University Fund.
- (e) Transition rule regarding special allowance payments.
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[T.D. 8476, 58 FR 33515, June 18, 1993, as amended by T.D. 8538, 59 FR 24041, May 10, 1994; T.D. 8718, 62 FR 25506, May 9, 1997]

§ 1.148-1 Definitions and elections.

(a) *In general.* The definitions in this section and the definitions under section 150 apply for purposes of section 148 and §§ 1.148-1 through 1.148-11.

(b) *Certain definitions.* The following definitions apply:

Accounting method means both the overall method used to account for gross proceeds of an issue (e.g., the cash method or a modified accrual method) and the method used to account for or allocate any particular item within that overall accounting method (e.g., accounting for investments, expenditures, allocations to and from different sources, and particular items of the foregoing).

Annuity contract means annuity contract as defined in section 72.

Available amount means available amount as defined in § 1.148-6(d)(3)(iii).

Bona fide debt service fund means a fund, which may include proceeds of an issue, that—

(1) Is used primarily to achieve a proper matching of revenues with principal and interest payments within each bond year; and

(2) Is depleted at least once each bond year, except for a reasonable carryover amount not to exceed the greater of:

(i) the earnings on the fund for the immediately preceding bond year; or

(ii) one-twelfth of the principal and interest payments on the issue for the immediately preceding bond year.

Bond year means, in reference to an issue, each 1-year period that ends on the day selected by the issuer. The first and last bond years may be short periods. If no day is selected by the issuer before the earlier of the final maturity date of the issue or the date that is 5 years after the issue date, bond years end on each anniversary of the issue date and on the final maturity date.