Treasury Inspector General for Tax Administration
Office of Audit

OBSERVATIONS ABOUT ANNUAL DOLLAR LIMITS FOR AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 BONDS

Issued on January 8, 2010

Highlights

Highlights of Report Number: 2010-11-016 to the Internal Revenue Service Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

The American Recovery and Reinvestment Act of 2009 (Recovery Act) authorizes State and local governments to issue more than $45 billion in new bonds, some with tax incentives to bond issuers or bondholders, and some with volume caps on the dollar amounts that can be issued. The Tax Exempt Bonds office will need to be vigilant to ensure that Recovery Act bonds are not issued in excess of annual limits. If annual limits are exceeded, the Federal Government risks losing future tax revenue because excess Recovery Act bonds may not be eligible for tax credits or may be taxable. Due to the challenging economic times the country is facing, it is even more important that the Internal Revenue Service (IRS) remain vigilant in ensuring that dollar limitations for bonds are not exceeded as the Federal Government works to stimulate the economy.

WHY TIGTA DID THE AUDIT

The Recovery Act contains both spending and tax provisions of $787 billion over 10 years. The Recovery Act authorizes the issuance of additional tax-exempt bonds and greatly expands the market for tax credit bonds. The overall objective of this review was to report observations identified during the Review of Private Activity Tax-Exempt Bond Volume Cap Compliance that relate to the Recovery Act.

WHAT TIGTA FOUND

In a previous audit, TIGTA determined that the IRS needed to improve its monitoring of tax-exempt private activity bonds to ensure these bonds are not issued in excess of annual dollar limits, known as volume caps. The Recovery Act also includes volume caps for new and expanded tax credit and tax-exempt bonds.

The Tax Exempt Bonds office believes it has considered the recommendations of the prior TIGTA audit and has taken steps to ensure it is adequately monitoring the volumes of Recovery Act bonds. TIGTA did not conduct any additional work to evaluate the differences between how the IRS processes and monitors Recovery Act bonds versus private activity bonds or whether the new controls are effective. Due to the large amount of money involved, it will be important that the Tax Exempt Bonds office monitor Recovery Act bonds to ensure these bonds do not exceed legislative limits.

WHAT TIGTA RECOMMENDED

There are no recommendations in this report. Tax Exempt and Government Entities Division management reviewed the report before it was issued and offered clarifying comments and suggestions, which have been taken into account.

READ THE FULL REPORT

To view the report, including the scope and methodology, go to:

http://www.treas.gov/tigta/auditreports/2010reports/201011016fr.pdf.