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changes the obligations for the underwriter's (or other purchaser's) check.

(7) *Term of an issue.* The term of an issue is the period beginning on the date of issue and ending on the latest maturity date of any obligation of the issue without regard to optional redemption dates.

(8) *Bond indentures and related documents.* The term "bond indenture" includes a bond resolution or ordinance. With respect to a bond indenture, the term "related documents" includes, for example, a trust agreement, a prospectus, or a transcript of proceedings and accompanying certificates.

(9) *Multipurpose issues.* (i) In the case of an issue of governmental obligations—

(A) Issued to finance two or more projects with respect to which the temporary periods provided in paragraph (b)(1) or (5) of § 1.103-14 are different (including different temporary periods resulting from an election under paragraph (b)(5)(i)(B) of this section), or

(B) Part of the proceeds of which are used for refunding to which the rules of paragraph (e) of § 1.103-14 apply or for a governmental program to which the rules of paragraph (h) of this section apply,

the portion of the proceeds of such governmental obligations to be used to finance projects having different temporary periods or to be used partly for refunding or partly for a governmental program shall be treated as separate issues of governmental obligations for purposes of determining the temporary period requirements, the reasonably required reserve or replacement fund, the application of the major portion test, and the application of § 1.103-15 (relating to excess proceeds) with respect to each such separate issue.

(ii) For purposes of this section and for purposes of § 1.103-14, the term "project" means any governmental purpose financed by the issue of governmental obligations. Such purpose does not include the investment of the proceeds of such issue in acquired nonpurpose obligations.

(10) *Issue.* (i) Two or more obligations are part of the same "issue" if the obligations—

(A) Are issued at substantially the same time,

(B) Are sold pursuant to a common plan of financing, and

(C) Will be paid out of substantially the same source of funds (or will have substantially the same claim to be paid out of substantially the same source of funds).

All other facts (such as whether the obligations are offered by the same official

Reg. § 1.103-13(c)(1)

statement or are sold under the same indenture) are irrelevant for purposes of this subparagraph.

(ii) The following examples illustrate the application of this subparagraph:

Example (1). On January 1, 1980, city T issues \$10,000,000 of series A revenue bonds and on January 7, 1980, city T issues \$5,000,000 of series B revenue bonds. The series A and series B bonds are sold pursuant to a common plan of financing and both will be paid solely out of revenues of the city T water works. Based on these facts, the series A and series B bonds are all part of one issue.

Example (2). The facts are the same as in example (1), except that the series B bonds are special obligation bonds and will be paid out of interest on Treasury obligations. Because the series A and series B bonds will not be paid from the same source of funds, they are treated as separate issues.

(11) *Discharged.* An issue is "discharged" when cash is available on the date due (whether at maturity or upon prior call for redemption) at the place of payment and interest ceases to accrue on the issue.

(12) *Bona fide debt service fund.* (i) A bona fide debt service fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year.

(ii) A bona fide debt service fund for a single issue must be depleted at least once a year except for a reasonable carry-over amount (not to exceed the greater of (A) 1 year's earnings on the fund or (B) one-twelfth of annual debt service).

(iii) A bona fide debt service fund may be established for two or more issues, provided that the total amount in the fund at no time exceeds the total of the amounts that could be held in bona fide debt service funds established separately for each of the issues.

(c) *Computation of yield.*—(1) *In general.* (i) Paragraph (c)(1)(iii) of this section provides rules to determine the yield on acquired nonpurpose obligations allocable to a refunding issue. Paragraph (c)(1)(ii) of this section provides rules to determine yield on governmental obligations and all other acquired obligations.

(ii) For purposes of this section and § 1.103-14, the term "yield" means that yield which when used in computing the present worth of all payments of principal and interest to be paid on the obligation produces an amount equal to the purchase price. The yield on both governmental obligations and acquired obligations shall be calculated by the use of the same frequency interval of compounding interest. Thus, for example, if the yield on the gov-

ernmental obligations is determined on the basis of semiannual interest compounding, then the yield on acquired obligations acquired with the proceeds of such governmental obligations shall also be expressed in terms of semiannual interest compounding. In the case of governmental obligations, the computation must be made separately for each issue of obligations issued by a governmental unit, except that a single computation may be made for two or more issues if, before the issuance of the last issue, the issuer established to the satisfaction of the Commissioner that the single computation will not distort yield or otherwise tend to defeat the purposes of section 103(c). In the case of acquired obligations, the computation shall be made separately with respect to each class of acquired obligations referred to in paragraph (b)(4)(iv) of this section allocated to an issue of governmental obligations. The yield produced by an acquired obligation which is a security may be computed by any method which is consistent with the principles of the actuarial method of computing yield. For purposes of such computations, securities held beyond the last expected maturity date of the governmental obligations shall be deemed to be sold on such maturity date. In cases where the issuer has no reasonable expectations as to the amount of principal to be repaid on an acquired security at the time that such security is sold, the amount of such principal shall be deemed to be the same as the fair market value of such security on the date of issue of the governmental obligations to which such security is allocated or, if later, the date on which such security is acquired. No yield computation need be made with respect to an acquired obligation while such obligation is held during the temporary period or periods referred to in paragraph (b) or (e) of § 1.103-14, since yield allocable to such temporary period or periods is disregarded in determining whether a governmental obligation is an arbitrage bond. However, in the case of an acquired obligation which is held during and after a temporary period, if the yield applicable to the temporary period exceeds the yield of a comparable obligation that could be acquired and held only during such temporary period, then the computation of yield on such acquired obligation must be made by taking into account the yield allocable to such temporary period or periods. No computation need be made with respect to acquired obligations which represent a reasonably required reserve or replacement fund under paragraph (d) or (e) of § 1.103-14 or represent investments of less than a major portion of the proceeds within the meaning of paragraph (b)(1) of this section or paragraph (e) of § 1.103-14. See paragraph (b)(5)(iv) of this section for

(iii) (A) In the case of acquired nonpurpose obligations (as defined in paragraph (b)(4)(iv)(B) of this section) allocable to a refunding issue, the term "yield" means the yield computed under paragraph (c)(1)(ii) of this section based on the market price of the acquired obligations as determined under this paragraph (c)(1)(iii). This paragraph (c)(1)(iii) applies to proceeds of the refunding issue during the period beginning on the date of issue and ending on the date the last obligation of the prior issue is discharged.

(B) The market price of an acquired obligation shall be the mean of the bid and offered prices on an established market where such obligation is traded on the date of issue of the refunding issue, or, if earlier, on the date of a binding contract to acquire such obligation, or if there are no bid and offered prices on such date, on the first day preceding such date for which there are bid and offered prices. Any acquired obligation for which there is not an established market shall be treated as producing a yield materially higher than the yield of the refunding issue and will cause obligations of the refunding issue to be arbitrage bonds, unless no yield computation is necessary under paragraph (c)(1)(ii) of this section with respect to such acquired obligation. Any market especially established to provide an acquired obligation to an issuer of governmental obligations will not be treated as an established market. For example, if a person sells stripped coupon bonds to issuers of governmental obligations and there is not an established market for sales of such bonds to other persons, such sales will not establish a market. The mean market price may be determined by reference to any appropriate publication, such as, for example, "Composite Closing Quotations for United States Government Securities" published by the Federal Reserve Bank of New York. Where the price of an obligation is quoted on an established market in terms of yield, the market price shall be the price necessary to produce such yield using the method of computing yield under paragraph (c)(1)(ii) of this section (determined without regard to any administrative costs with respect to such obligation). The market price of an acquired obligation may be established by the borrowing practices of the issuer of the obligation, as, for example, by determining the market price based on the interest ordinarily paid by such issuer to persons other than governmental units with respect to obligations of comparable maturities. The market price of a time or demand deposit (other than a deposit acquired with transferred proceeds) shall be determined under the preceding sentence by taking into account the yield that would be paid by the obligor if the deposit were held.

period of the deposit, except that if the yield actually paid is higher than such yield the market price shall be the amount of the deposit. If the price paid for an obligation is lower than the mean market price, such lower price shall be the market price for purposes of this paragraph. If the price paid for an obligation is higher than the mean market price, such higher price may be used as the market price only if the obligation is acquired in an arm's length transaction without regard to any amount paid to reduce the yield on the obligation. For purposes of this paragraph, where a United States Treasury obligation is acquired directly from the United States Treasury, such acquisition shall be treated as establishing a market for such obligation and as establishing the market price of such obligation.

(C) The market price of a certificate of deposit issued by a commercial bank may be determined as the bona fide bid price quoted by a dealer who maintains an active secondary market in such certificates of deposit.

(iv) The rules in paragraph (c) shall also apply to acquired obligations that are allocable to amounts treated as proceeds under paragraph (g) of this section.

(2) *Classes of acquired obligations.* The yield produced by a class of acquired obligations shall be computed as if all of the obligations of such class comprised a single issue of obligations, whether or not such obligations are to be acquired or held concurrently. Thus, for example, if an issuer uses the proceeds of an issue to acquire two blocks of nonpurpose obligations (such as, for example, Federal obligations) with different interest rates and maturity periods for each block, the yield on such acquired nonpurpose obligations shall be computed as if such issuer acquired one issue of obligations with different interest rates and maturity periods. The maturity period of each acquired obligation shall be the period that the State or local governmental unit will hold such obligation.

(3) *Student loans.* Payments made by the Commissioner of Education pursuant to section 127(a) of the Education Amendments of 1976 are not taken into account in determining yield on student loan notes.

(4) *Example.* The provisions of this paragraph may be illustrated by the following example:

Example. (i) On January 1, 1984, city A sells for a premium of \$100,000 a 5-year \$1 million obligation. City A will make semiannual interest payments beginning on July 1, 1984, of \$36,425.88 and will make the \$1 million principal payment on January 1, 1989. The proceeds of the issue are to be used for a municipal construction project, and City A reasonably expects on

the date of issue that the project will be paid for by January 1, 1987. A portion of the proceeds of the issue are invested in a reasonably required reserve or replacement fund which will extend through the term of the issue. On January 1, 1984, \$9,800 of the proceeds of the issue (other than the proceeds invested in the reasonably required reserve and replacement fund) are used to buy an acquired obligation which has a par value of \$10,000, a stated interest rate of 4.7585 percent per annum, and a maturity date of January 1, 1989. Interest on the acquired obligation will be paid annually at the rate of \$475.85. Interest on the acquired obligation will be used when received to pay construction expenses as received.

(ii) The yield on the governmental obligations is 5 percent and is computed as follows:

Date	Payments (Interest & Principal)	Present Worth Factor	Column(1) Times Column(2)
7-1-84	\$36,425.88	\$.97560976	\$35,537.44
1-1-85	36,425.88	.95181440	34,670.68
7-1-85	36,425.88	.92859941	33,825.05
1-1-86	36,425.88	.90595064	33,000.05
7-1-86	36,425.88	.88385429	32,195.17
1-1-87	36,425.88	.86229687	31,409.92
7-1-87	36,425.88	.84126524	30,643.83
1-1-88	36,425.88	.82074657	29,896.42
7-1-88	36,424.88	.80072836	29,167.24
1-1-89	36,425.88	.78119840	28,455.84
1-1-89	1,000,000.00	.78119840	781,198.40

Total \$1,100,000.04

The present worth factor represents the present worth of a dollar payable at the specified future date based on an annual interest rate of 5 percent compounded semi-annually.

(iii) The yield on the acquired obligation is 5.124257 percent and is computed as follows:

Year	Payments (Interest & Principal)	Present Worth Factor	Column(1) Times Column(2)
Year 1	\$475.85	\$.9506615900	\$452.37
Year 2	475.85	.9037574700	430.05
	10,000.00	.9037574700	9,037.57

Total \$9,919.99

The present worth factor represents the present worth of a dollar payable at the specified future date based on an annual interest rate of 5.124257 percent compounded semiannually. Since the yield on the acquired obligation allocable to the temporary period does not exceed the current market true yield on a comparable acquired obligation held for a 3-year period, no yield computation need be made with respect to such acquired obligation while it is held during the 3-year temporary period. Thus, the yield is computed as though the obligation

Reg. § 1.103-13(c)(2)