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(1)	1.148-1(c)(4)(i)(B)(1)	(1) For the portion of an issue that is to be used to finance restricted working capital expenditures, if that portion is not outstanding longer than 2 years;	(1) For the portion of an issue that is to be used to finance working capital expenditures, if that portion is not outstanding longer than the temporary period under §1.148-2(e)(3) for which the proceeds qualify;
(2)	1.148-1(c)(4)(i)(B)(4)	None	(4) For the portion of an issue (including a refunding issue) that is to be used to finance working capital expenditures, if that portion satisfies paragraph (c)(4)(ii) of this section. (ii) Safe harbor for longer-term working capital financings. A portion of an issue used to finance working capital expenditures satisfies this paragraph (c)(4)(ii) if the issuer meets the requirements of paragraphs (c)(4)(ii)(A) through (E) of this section. (A) Determine first testing year. On the issue date, the issuer must determine the first fiscal year following the applicable temporary period under §1.148-2(e) in which it reasonably expects to have available amounts (first testing year), but in no event can the first day of the first testing year be later than five years after the issue date. (B) Application of available amount to reduce burden on tax-exempt bond market. Beginning with the first testing year and for each subsequent fiscal year for which the portion of the issue that is the subject of this safe harbor remains outstanding, the issuer must determine the available amount as of the first day of each fiscal year. Then, except as provided in paragraph (c)(4)(ii)(D) of this section, within the first 90 days of that fiscal year, the issuer must apply that amount (or if less, the available amount on the date of the required redemption or investment) to redeem or to invest in eligible tax-exempt bonds (as defined in paragraph (c)(4)(ii)(E) of this section). For this purpose,

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			available amounts in a bona fide debt service fund are not treated as available amounts. (C) Continuous investment requirement. Except as provided in this paragraph (c)(4)(ii)(C), any amounts invested in eligible tax-exempt bonds under paragraph (c)(4)(ii)(B) of this section must be invested continuously in such tax exempt bonds to the extent provided in paragraph (c)(4)(ii)(D) of this section. (1) Exception for reinvestment period. Amounts previously invested in eligible tax-exempt bonds under paragraph (c)(4)(ii)(B) of this section that are held for not more than 30 days in a fiscal year pending reinvestment in eligible tax-exempt bonds are treated as invested in eligible tax-exempt bonds. (2) Limited use of invested amounts. An issuer may spend amounts previously invested in eligible tax-exempt bonds under paragraph (c)(4)(ii)(B) of this section within 30 days of the date on which they cease to be so invested to make expenditures for a governmental purpose on any date on which the issuer has no other available amounts for such purpose, or to redeem eligible tax exempt bonds. (D) Cap on applied or invested amounts. The maximum amount that an issuer is required to apply under paragraph (c)(4)(ii)(B) of this section or to invest continuously under paragraph (c)(4)(ii)(C) of this section with respect to the portion of an issue that is the subject of this safe harbor is the outstanding principal amount of such portion. For purposes of this cap, an issuer receives credit towards its requirement to invest available amounts in eligible tax-exempt bonds for amounts previously invested under paragraph (c)(4)(ii)(B) of

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			this section that remain continuously invested under paragraph (c)(4)(ii)(C) of this section. (E) Definition of eligible tax-exempt bonds. For purposes of paragraph (c)(4)(ii) of this section, eligible tax-exempt bonds means any of the following: (1) A bond the interest on which is excludable from gross income under section 103 and that is not a specified private activity bond (as defined in section 57(a)(5)(C)) subject to the alternative minimum tax; (2) An interest in a regulated investment company to the extent that at least 95 percent of the income to the holder of the interest is interest on a bond that is excludable from gross income under section 103 and that is not interest on a specified private activity bond (as defined in section 57(a)(5)(C)) subject to the alternative minimum tax; or (3) A certificate of indebtedness issued by the United States Treasury pursuant to the Demand Deposit State and Local Government Series program described in 31 CFR part 344.
(3)	1.148-6(d)(3)(iii)(A)	(A) ***Except as otherwise provided, available amount excludes proceeds of the issue but includes cash, investments, and other amounts held in accounts or otherwise by the issuer or a related party if those amounts may be used by the issuer for working capital expenditures of the type being financed by an issue without legislative or judicial action	(A) ***Except as otherwise provided, available amount excludes proceeds of any issue but includes cash, investments, and other amounts held in accounts or otherwise by the issuer or a related party if those amounts may be used by the issuer for working capital expenditures of the type being financed by an issue without legislative or judicial action and without a legislative, judicial, or contractual requirement that those amounts be reimbursed.

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		and without a legislative, judicial, or contractual requirement that those amounts be reimbursed.	
(4)	1.148-2(e)(3)	(3) Temporary period for restricted working capital expenditures— (i) General rule. The proceeds of an issue that are reasonably expected to be allocated to restricted working capital expenditures within 13 months after the issue date qualify for a temporary period of 13 months beginning on the issue date. Paragraph (e)(2) of this section contains additional temporary period rules for certain working capital expenditures that are treated as part of a capital project.	(3) Temporary period for working capital expenditures--(i) General rule. The proceeds of an issue that are reasonably expected to be allocated to working capital expenditures within 13 months after the issue date qualify for a temporary period of 13 months beginning on the issue date. Paragraph (e)(2) of this section contains additional temporary period rules for certain working capital expenditures that are treated as part of a capital project.
(5)	1.148-3(d)(1)(iv)	(iv) On the last day of each bond year during which there are amounts allocated to gross proceeds of an issue that are subject to the rebate requirement, and on the final maturity date, a computation credit of $1,000;	(iv) On the last day of each bond year during which there are amounts allocated to gross proceeds of an issue that are subject to the rebate requirement, and on the final maturity date, a computation credit of $1,400 for any bond year ending in 2007 and, for bond years ending after 2007, a computation credit in the amount determined under paragraph (d)(4) of this section;
	1.148-3(d)(4)	None	(4) Cost-of-living adjustment. For any calendar year after 2007, the $1,400 computation credit set forth in paragraph (d)(1)(iv) of this section shall be increased by an amount equal to such dollar amount multiplied by the cost-ofliving adjustment determined under section 1(f)(3) for such year, as modified by this paragraph (d)(4). In applying section 1(f)(3) to determine this cost-of-living adjustment, the reference to "calendar year 1992" in section 1(f)(3)(B) shall be changed to "calendar year 2006." If any such increase determined under this paragraph

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			(d)(4) is not a multiple of $10, such increase shall be rounded to the nearest multiple thereof.
(6)	1.148-4(a)	(a) *** The yield on an issue that would be a purpose investment (absent section 148(b)(3)(A)) is equal to the yield on the conduit financing issue that financed that purpose investment. The Commissioner may permit issuers of qualified mortgage bonds or qualified student loan bonds to use a single yield for two or more issues.	(a) *** The yield on an issue that would be a purpose investment (absent section 148(b)(3)(A)) is equal to the yield on the conduit financing issue that financed that purpose investment.
(7)	1.148-4(b)(3)	(3) Yield on certain fixed yield bonds subject to optional early redemption—(i) In general. If a fixed yield bond is subject to optional early redemption and is described in paragraph (b)(3)(ii) of this section, the yield on the issue containing the bond is computed by treating the bond as redeemed at its stated redemption price on the optional redemption date that would produce the lowest yield on the issue.	(3) Yield on certain fixed yield bonds subject to optional early redemption-- (i) In general. If a fixed yield bond is subject to optional early redemption and is described in paragraph (b)(3)(ii) of this section, the yield on the issue containing the bond is computed by treating the bond as redeemed at its stated redemption price on the optional redemption date that would produce the lowest yield on that bond.
(8)	1.148-4(h)(2)(ii)(A)	(A)***.	(A) * * * Solely for purposes of determining if a hedge is a qualified hedge under this section, payments that an issuer receives pursuant to the terms of a hedge that are equal to the issuer's cost of funds are treated as periodic payments under §1.446-3 without regard to whether the payments are calculated by reference to a "specified index" described in §1.446-3(c)(2). Accordingly, a hedge does not have a significant investment element under this paragraph (h)(2)(ii)(A) solely because an issuer receives payments pursuant to the terms of a hedge that

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			are computed to be equal to the issuer's cost of funds, such as the issuer's actual market-based tax-exempt variable interest rate on its bonds.
(9)	1.148-4(h)(2)(v)	(v) Interest-based contract and size and scope of hedge. The contract is primarily interest-based. A contract is not primarily interest based unless --	(v) Interest-based contract and size and scope of hedge. The contract is primarily interest-based (for example, a hedge based on a debt index, including a tax-exempt debt index or a taxable debt index, rather than an equity index). In addition, the size and scope[1] of the hedge under the contract is limited to that which is reasonably necessary to hedge the issuer's risk with respect to interest rate changes on the hedged bonds. For example, a contract is limited to hedging an issuer's risk with respect to interest rate changes on the hedged bonds if the hedge is based on the principal amount and the reasonably expected interest payments of the hedged bonds. For anticipatory hedges under paragraph (h)(5) of this section, the size and scope limitation applies based on the reasonably expected terms of the hedged bonds to be issued. A contract is not primarily interest based unless--
(10)	1.148-4(h)(2)(viii)(B)	None	(B) Hedge provider's certification. The hedge provider's certification must— (1) Provide that the terms of the hedge were agreed to between a willing buyer and willing seller in a bona fide, arm's-length transaction; (2) Provide that the hedge provider has not made, and does not expect to make, any payment to any third party for the benefit of the issuer in connection with the hedge, except for any such third-party payment that the hedge provider expressly identifies in the documents for the hedge; (3) Provide that the amounts payable to the hedge provider pursuant to the hedge do not include any payments for

[1] The "size and scope" limitation was included in the Proposed Regulations and is intended to clarify that certain leveraged hedges are not qualified hedges.

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			underwriting or other services unrelated to the hedge provider's obligations under the hedge, except for any such payment that the hedge provider expressly identifies in the documents for the hedge; and (4) Contain any other statements that the Commissioner may provide in guidance published in the Internal Revenue Bulletin. See §601.601(d)(2)(ii) of this chapter.
(11)	1.148-4(h)(3)(iv)(C)	(C) Special rule for terminations when bonds are redeemed. Except as otherwise provided in this paragraph (h)(3)(iv)(C) and in paragraph (h)(3)(iv)(D) of this section, when a qualified hedge is deemed terminated because the hedged bonds are redeemed, the fair market value of the qualified hedge on the redemption date is treated as a termination payment made or received on that date. When hedged bonds are redeemed, any payment received by the issuer on termination of a hedge, including a termination payment or a deemed termination payment, reduces, but not below zero, the interest payments made by the issuer on the hedged bonds in the computation period ending on the termination date. The remainder of the payment, if any, is reasonably allocated over the bond years in the immediately preceding computation period or periods to the extent	(C) Special rules for certain modifications when the hedge remains qualified. A modification of a qualified hedge that otherwise would result in a deemed termination under paragraph (h)(3)(iv)(B) of this section does not result in such a termination if the modified hedge is re-tested for qualification as a qualified hedge as of the date of the modification, the modified hedge meets the requirements for a qualified hedge as of such date, and the modified hedge is treated as a qualified hedge prospectively in determining the yield on the hedged bonds. For purposes of this paragraph (h)(3)(iv)(C), when determining whether the modified hedge is qualified, the fact that the existing qualified hedge is off-market as of the date of the modification is disregarded and the identification requirement in paragraph (h)(2)(viii) of this section applies by measuring the time period for identification from the date of the modification and without regard to the requirement for a hedge provider's certification. (D) Continuations of certain qualified hedges in refundings. If hedged bonds are redeemed using proceeds of a refunding issue, the qualified hedge for the refunded bonds is not actually terminated, and the hedge meets the requirements for a qualified hedge for the refunding bonds as of the issue date of the refunding bonds, then no termination of the hedge occurs and the hedge instead is treated as a qualified hedge for the

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		necessary to eliminate the excess. (D) Special rules for refundings**.** To the extent that the hedged bonds are redeemed using the proceeds of a refunding issue, the termination payment is accounted for under paragraph (h)(3)(iv)(B) of this section by treating it as a payment on the refunding issue, rather than the hedged bonds. In addition, to the extent that the refunding issue is redeemed during the period to which the termination payment has been allocated to that issue, paragraph (h)(3)(iv)(C) of this section applies to the termination payment by treating it as a payment on the redeemed refunding issue.	refunding bonds. For purposes of this paragraph (h)(3)(iv)(D), when determining whether the hedge is a qualified hedge for the refunding bonds, the fact that the hedge is off-market with respect to the refunding bonds as of the issue date of the refunding bonds is disregarded and the identification requirement in paragraph (h)(2)(viii) of this section applies by measuring the time period for identification from the issue date of the refunding bonds and without regard to the requirement for a hedge provider's certification.
(12)	1.148-5(c)	(c) Yield reduction payments to the United States -(1) In general. In determining the yield on an investment to which this paragraph (c) applies, any amount paid to the United States in accordance with this paragraph (c), including a rebate amount, is treated as a payment for that investment that reduces the yield on that investment. (3) Applicability of special yield reduction rule -	(c) Yield reduction payments to the United States—(1) In general. In determining the yield on an investment to which this paragraph (c) applies, any amount paid to the United States in accordance with this paragraph (c), including a rebate amount, is treated as a payment for that investment that reduces the yield on that investment. (3) Applicability of special yield reduction rule. Paragraph (c) applies only to investments that are described in at least one of paragraphs (c)(3)(i) through (ix) of this section and, except as otherwise expressly provided in paragraphs (c)(3)(i) through (ix) of this section, that are allocated to proceeds of an issue other than gross proceeds of an advance refunding issue.

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		(i) Covered investments. This paragraph (c) applies to – (D) Purpose investments allocable to qualified student loans under a program described in section 144(b)(1)(A);	(iv) Purpose investments allocable to qualified student loans and qualified mortgage loans. Purpose investments allocable to qualified student loans and qualified mortgage loans. (viii) Nonpurpose investments allocable to proceeds when State and Local Government Series Securities are unavailable. Nonpurpose investments allocable to proceeds of an issue, including an advance refunding issue, that an issuer purchases if, on the date the issuer enters into the agreement to purchase such investments, the issuer is unable to subscribe for State and Local Government Series Securities because the U.S. Department of the Treasury, Bureau of the Fiscal Service, has suspended sales of those securities.
(13)	[1.148-5(d)]()	(d) Value of investments -(1) In general. Except as otherwise provided, the value of an investment (including a payment or receipt on the investment) on a date must be determined using one of the following valuation methods consistently for all purposes of section 148 to that investment on that date: (i) Plain par investment - outstanding principal amount. A plain par investment may be valued at its outstanding stated principal amount, plus any accrued unpaid interest on that date. (ii) Fixed rate investment - present value. A fixed rate investment may be valued at its present value on that	(d) Value of investments—(1) In general. Except as otherwise provided, the value of an investment (including a payment or receipt on the investment) on a date must be determined using one of the following valuation methods consistently for all purposes of section 148 to that investment on that date: (i) Plain par investment—outstanding principal amount. A plain par investment may be valued at its outstanding stated principal amount, plus any accrued unpaid interest on that date. (ii) Fixed rate investment—present value. A fixed rate investment may be valued at its present value on that date. (iii) Any investment—fair market value. An investment may be valued at its fair market value on that date. (2) Mandatory valuation of certain yield restricted investments at present value. A purpose investment must be valued at present value, and except as otherwise provided in paragraphs (b)(3) and (d)(3) of this section, a yield restricted nonpurpose investment must be valued at present value.

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		date. (iii) Any investment - fair market value. An investment may be valued at its fair market value on that date. (2) Mandatory valuation of yield restricted investments at present value. Any yield restricted investment must be valued at present value. For example, a purpose investment or an investment allocable to gross proceeds in a refunding escrow after the expiration of the initial temporary period must be valued at present value. See, however, paragraph (b)(3) of this section. (3) Mandatory valuation of certain investments at fair market value - (i) In general. Except as provided in paragraphs (d)(2), (d)(3)(ii), and (d)(4) of this section, an investment must be valued at fair market value on the date that it is first allocated to an issue or first ceases to be allocated to an issue as a consequence of a deemed acquisition or deemed disposition. For example, if an issuer deposits existing investments into a sinking fund for an issue, those investments must be valued at fair market value as of the date first deposited into the	(3) Mandatory valuation of certain investments at fair market value—(i) In general. Except as otherwise provided in paragraphs (d)(3)(ii) and (d)(4) of this section, a nonpurpose investment must be valued at fair market value on the date that it is first allocated to an issue or first ceases to be allocated to an issue as a consequence of a deemed acquisition or deemed disposition. For example, if an issuer deposits existing nonpurpose investments into a sinking fund for an issue, those investments must be valued at fair market value as of the date first deposited into the fund. (ii) Exception to fair market value requirement for transferred proceeds allocations, certain universal cap allocations, and commingled funds. Paragraph (d)(3)(i) of this section does not apply if the investment is allocated from one issue to another as a result of the transferred proceeds allocation rule under §1.148-9(b) or is deallocated from one issue as a result of the universal cap rule under §1.148-6(b)(2) and reallocated to another issue as a result of a preexisting pledge of the investment to secure that other issue, provided that, in either circumstance (that is, transferred proceeds allocations or universal cap deallocations), the issue from which the investment is allocated (that is, the first issue in an allocation from one issue to another issue) consists of tax-exempt bonds. In addition, paragraph (d)(3)(i) of this section does not apply to investments in a commingled fund (other than a bona fide debt service fund) unless it is an investment being initially deposited in or withdrawn from a commingled fund described in §1.148-6(e)(5)(iii).

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		fund. (ii) Exception to fair market value requirement for transferred proceeds allocations, universal cap allocations, and commingled funds. Paragraph (d)(3)(i) of this section does not apply if the investment is allocated from one issue to another issue as a result of the transferred proceeds allocation rule under § 1.148-9(b) or the universal cap rule under § 1.148-6(b)(2), provided that both issues consist exclusively of tax-exempt bonds. In addition, paragraph (d)(3)(i) of this section does not apply to investments in a commingled fund (other than a bona fide debt service fund) unless it is an investment being initially deposited in or withdrawn from a commingled fund described in § 1.148-6(e)(5)(iii).	
(14)	1.148-5(d)(6)	(6) Definition of fair market value - (i) In general. *** The fair market value of a United States Treasury obligation that is purchased directly from the United States Treasury is its purchase price.	(6) Definition of fair market value—(i) In general. *** On the purchase date, the fair market value of a United States Treasury obligation that is purchased directly from the United States Treasury, including a State and Local Government Series Security, is its purchase price. The fair market value of a State and Local Government Series Security on any date other than the purchase date is the redemption price for redemption on that date.
(15)	1.150-1(f)	None	(f) Definition and treatment of grants—(1) Definition. Grant means a transfer for a governmental purpose of money or property to a transferee that is not a related party to or an agent

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			of the transferor. The transfer must not impose any obligation or condition to directly or indirectly repay any amount to the transferor or a related party. Obligations or conditions intended solely to assure expenditure of the transferred moneys in accordance with the governmental purpose of the transfer do not prevent a transfer from being a grant. (2) Treatment. Except as otherwise provided (for example, §1.148-6(d)(4), which treats proceeds used for grants as spent for arbitrage purposes when the grant is made), the character and nature of a grantee's use of proceeds are taken into account in determining which rules are applicable to the bond issue and whether the applicable requirements for the bond issue are met. For example, a grantee's use of proceeds generally determines whether the proceeds are used for capital projects or working capital expenditures under section 148 and whether the qualified purposes for the specific type of bond issue are met.
	1.150-2(d)(3)	(3) Nature of expenditure. The original expenditure is a capital expenditure, a cost of issuance for a bond, an expenditure described in § 1.148-6(d)(3)(ii)(B) (relating to certain extraordinary working capital items), a grant (as defined in § 1.148-6(d)(4)), a qualified student loan, a qualified mortgage loan, or a qualified veterans' mortgage loan.	(3) Nature of expenditure. The original expenditure is a capital expenditure, a cost of issuance for a bond, an expenditure described in §1.148-6(d)(3)(ii)(B) (relating to certain extraordinary working capital items), a grant (as defined in §1.150-1(f)), a qualified student loan, a qualified mortgage loan, or a qualified veterans' mortgage loan.