



News Release

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IRS Revises Form for Tax-Exempt Bonds

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WASHINGTON – The Internal Revenue Service today announced the release of a revised form used by municipalities and other issuers of tax-exempt bonds to make arbitrage related payments.

The revised Form 8038-T, *Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate*, will streamline the process for issuers and will help the IRS identify potentially abusive transactions.

Arbitrage is the profit that results from investing the proceeds of tax-exempt bonds in higher yielding taxable securities. Tax law generally requires a rebate of arbitrage profits to the U.S. Treasury.

“Taxpayers will have less paperwork with this new approach,” said IRS Commissioner Mark W. Everson. “The IRS will get new information that will help spot potentially abusive bond trends before they get out of hand.”

The new form reduces the number of items to be completed by 20 percent and includes instructions re-written in a more useful, plain-language manner. In addition, a new section requests information related to various items such as qualified administrative costs, guaranteed investment contracts and the amount of proceeds used to redeem bonds. These new items will assist in spotting potentially abusive bond issues.

“We are finding that certain patterns exist in a number of abusive arbitrage transactions,” said Mark Scott, Director of the IRS’s Tax Exempt Bond Division. “Some of the new information asked for on the form will assist us in identifying such transactions.”

The effort to revise Form 8038-T began by soliciting input from practitioners that use the form. Many of the comments received were incorporated in the revisions, including a change requested by several commentators related to the report number. Other significant revisions include new sections for late payments and qualified zone academy bonds and elimination of a number of outdated questions related to seldom used elections.

The revised Form 8038-T is available online at www.irs.gov/bonds. Printed copies of the form and instructions are available by calling the IRS toll-free at (800) 829-3676.