

# Client Alert

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## U.S. Treasury Report Regarding Tax-Exempt Bond Examinations

The U.S. Treasury recently released a report from the Treasury Inspector General for Tax Administration (the "Treasury Report") that states that the Internal Revenue Service (the "IRS") more than doubled the number of bond examinations conducted per year from the number of examinations it conducted during previous reporting periods. The Treasury Report, which covers IRS enforcement activities of the Tax Exempt Bonds Office (the "TEB") from FY 2005 to FY 2010, also shows that the TEB assessed more than \$84 million of additional amounts for noncompliance based on bond examinations for such fiscal years. TEB assessed such amounts while also decreasing the amount of time TEB staff spends on each examination from more than 100 staff days to approximately eight staff days per examination.

The Treasury Report also shows that although the number of bond examinations has increased, most of the examinations did not uncover any tax violations. On average for the reporting period, 58 percent of bond issues examined by TEB were compliant and the compliance rate increased to 70 percent when arbitrage refund claims were removed from the calculation.

TEB is also conducting fewer examinations to identify bond promoters involved in misconduct. The number of TEB misconduct investigations decreased from 21 investigations in FY 2005 to two investigations in FY 2010. TEB believes the reason for the decrease can be attributed to the suspension of eight investigations in FY 2006 and 2007 that TEB plans to reactivate in the future, and that highly public criminal prosecutions have created a deterrent effect. The previous report prepared by the Treasury covered enforcement activities from FY 2002 through FY 2004.

The entire Treasury Report is available at:  
<http://www.treasury.gov/tigta/auditreports/2012reports/201210087fr.pdf>.

If you would like to discuss any of the issues addressed in this Client Alert or would simply like to find out more about Chapman, please contact any attorney in Chapman's Public Finance Department or visit us online at [chapman.com](http://chapman.com).

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