



[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-129067-15]

RIN 1545-BM99

Definition of Political Subdivision; Correction

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Correction to notice of proposed rulemaking.

**SUMMARY:** This document contains corrections to a notice of proposed rulemaking and notice of public hearing (REG-129067-15) published in the **Federal Register** on Tuesday, February 23, 2016, (81 FR 8870) that specifies the elements of a political subdivision for purposes of tax-exempt bonds. The corrections amend the applicability dates of the proposed definition of political subdivision to provide transition rules with respect to bonds issued before the general applicability date and certain refunding bonds.

**DATES:** Written or electronic comments for the notice of proposed rulemaking and notice of public hearing published at 81 FR 8870, February 23, 2016, are still being accepted and must be received by May 23, 2016. Request to speak and outlines of topics to be discussed at the public hearing scheduled for June 6, 2016, at 10:00 a.m., are also still being accepted and must be received by May 23, 2016.

**ADDRESSES:** Send submissions to: CC:PA:LPD:PR (REG-129067-15), Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered to: CC:PA:LPD:PR Monday through Friday between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (REG-129067-15), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC, 20224 or sent electronically via the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov) (REG-129067-15). The public hearing will be held at the Internal Revenue Building, 1111 Constitution Avenue, NW, Washington, DC.

**FOR FURTHER INFORMATION CONTACT:** Concerning the correction to the proposed regulations, Spence Hanemann at (202) 317-6980; concerning submissions of comments and the hearing, Oluwafunmilayo (Funmi) Taylor at (202) 317-6901 (not toll-free numbers).

#### **SUPPLEMENTARY INFORMATION:**

##### **Background**

The notice of proposed rulemaking and notice of public hearing that is the subject of this correction is under section 103 of the Internal Revenue Code.

##### **Need for Correction**

As published in the **Federal Register** (81 FR 8870, February 23, 2016), §1.103-1(c) of the notice of proposed rulemaking and notice of public hearing proposes a new definition of political subdivision. Section 1.103-1(d)(1) provides that, except as otherwise provided in §§1.103-1(d)(2) through (4), §1.103-1 (including §1.103-1(c))

applies to all entities for all purposes of sections 103 and 141 through 150 beginning on the date 90 days after the publication of the Treasury decision adopting the rules as final regulations in the **Federal Register**. Section 1.103-1(d)(2) provides that, for purposes of determining whether bonds are obligations of a political subdivision under section 103, the definition of political subdivision in §1.103-1(c) does not apply to an entity with respect to bonds that are issued before the general applicability date under §1.103-1(d)(1). Section 1.103-1(d)(3) provides that, for purposes of determining whether refunding bonds of an entity are obligations of a political subdivision under section 103, the definition of political subdivision in §1.103-1(c) does not apply to an entity with respect to refunding bonds that are issued on or after the general applicability date under §1.103-1(d)(1) to refund bonds with respect to which §1.103-1(c) otherwise does not apply, provided the weighted average maturity of the refunding bonds is no longer than the remaining weighted average maturity of the refunded bonds. Section 1.103-1(d)(4) provides that, for existing entities that are created or organized before March 24, 2016, the definition of political subdivision in §1.103-1(c) does not apply for any purpose of sections 103 and 141 to 150 during the three-year period beginning on the general applicability date under §1.103-1(d)(1).

After publication of the notice of proposed rulemaking and notice of public hearing in the **Federal Register** (81 FR 8870, February 23, 2016), the Treasury Department and the IRS received comments requesting that the transition rule in §1.103-1(d)(2) be applied not only for purposes of determining whether bonds are the

obligations of a political subdivision under section 103 but also for other purposes of sections 103 and 141 through 150. Commenters explained that, without a transition rule for the private activity bond rules under section 141, certain bonds issued before the notice of proposed rulemaking and notice of public hearing was published in the **Federal Register** may become private activity bonds under section 141 at the expiration of the three-year period provided in §1.103-1(d)(4). Certain bonds offered after the notice of proposed rulemaking and notice of public hearing was published in the **Federal Register** but before the general applicability date under §1.103-1(d)(1) present similar issues.

In response to these comments and to ensure that the notice of proposed rulemaking and notice of public hearing is fully prospective in effect, this document amends the transition rules for the definition of political subdivision in §§1.103-1(d)(2) and (3) to apply not only for purposes of determining whether bonds are the obligations of a political subdivision under section 103 but also for all other purposes of sections 103 and 141 through 150, including the private activity bond rules. This document also amends the transition rule for refunding bonds in §1.103-1(d)(3) to provide relief consistent with that provided in §1.103-1(d)(2), as amended. The effect of the amendment to §1.103-1(d)(2) is that the proposed definition of political subdivision will not apply for any purpose under sections 103 and 141 through 150 to any bond issued prior to the general applicability date under §1.103-1(d)(1). The effect of the amendment to §1.103-1(d)(3) is that the proposed definition of political subdivision will

not apply for any purpose under sections 103 and 141 through 150 to bonds issued to refund bonds covered by the transition rule in §1.103-1(d)(2), provided that the weighted average maturity is not extended.

### **Correction to Publication**

Accordingly, the notice of proposed rulemaking and notice of public hearing published in the **Federal Register** (81 FR 8870) on February 23, 2016, is corrected as follows:

#### **§ 1.103-1 [Corrected]**

1. On page 8873, third column, the third through twelfth lines of paragraph (d)(2) are corrected to read “bonds. For all purposes of sections 103 and 141 through 150, the definition of political subdivision in paragraph (c) of this section does not apply with respect to bonds that are issued before the general applicability date under paragraph (d)(1) of this section.”

2. On page 8873, third column, the third through eighteenth lines of paragraph (d)(3) are corrected to read “bonds. For all purposes of sections 103 and 141 through 150, the definition of political subdivision in paragraph (c) of this section does not apply with respect to refunding bonds that are issued on or after the general applicability date under paragraph (d)(1) of this section to refund bonds with respect to which paragraph (c) of this section otherwise does not apply, provided that the weighted average maturity of the refunding bonds is no longer than the remaining weighted average maturity of the refunded bonds.”

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