

BUILD AMERICA BONDS

What are Build America Bonds?

- Build America Bonds (BABs) were authorized by the American Recovery and Reinvestment Act 2009. The purpose of the program is to stimulate the issuance of bonds and the number of projects, in the long-run lowering the debts on such projects.
- BABs are bonds that ordinarily would be issued as tax-exempt bonds but that are issued as taxable bonds instead; however, the federal government subsidizes a portion of the tax on the interest. This subsidy, combined with the higher yield paid by taxable bonds, is designed to increase the demand for these bonds.
- BABs can be issued by any state or local governmental issuer of tax-exempt bonds. There is no limit on the amount of bonds that can be issued, but they may only be issued from February 17, 2009 through 2010.
- BABs allow state and local governments to borrow at lower costs for capital projects. Capital projects can include work on public buildings, courthouses, schools, roads, transportation infrastructure, government hospitals, public safety facilities and equipment, water and sewer projects, environmental projects, energy projects, governmental housing projects and public utilities.

How do they work?

There are two types of BABs:

- The first provides the bondholder with a non-refundable federal income tax credit of 35% of the interest paid on the bond in each tax year. If the bondholder lacks sufficient tax liability in any year to fully utilize that year's credit, the excess credit can be carried forward for use in future years.
- The second are referred to as "Issuer BABs". They provide no credit to the bondholder, but instead the issuer of the BABs receives payments from the Federal Treasury equal to 35% of the interest paid by the issuer. No more than 2% of Issuer BABs proceeds may be used to pay costs of issuance and, with this type of BABs, it appears that only new money projects for capital purposes can qualify. Because the credit is paid to the issuer, and BABs are taxable obligations, these bonds are attractive even to buyers that are not taxpayers (such as pension funds and endowments).

For more information:

- For more information please read the Internal Revenue Service's bulletin on BABs:
<http://www.irs.gov/pub/irs-drop/n-09-26.pdf>