

INSIGHTS

FY 2017 Sequestration Reduction Percentage for Direct Pay Tax Credit Bonds Set at 6.9 Percent

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According to an update released by The IRS Office of Tax Exempt Bonds (TEB), the sequester reduction percentage applied to the payments made to issuers of direct pay bonds in FY 2017 will be 6.9 percent. This percentage will apply to all direct credit subsidy payments scheduled to be made on or after October 1, 2016 through and including September 30, 2017. Direct pay bonds include Build America Bonds, Qualified School Construction Bonds, Qualified Zone Academy Bonds, New Clean Renewable Energy Bonds, and Qualified Energy Conservation Bonds for which an issuer elected to receive a direct credit subsidy pursuant to section 6431 of the Internal Revenue Code.

The FY 2017 percentage represents a slight uptick from the FY 2016 sequestration reduction rate of 6.8 percent, but is lower than it has been in years prior to 2016. Congress may still alter the sequester for FY 2017, and if such action is taken, the percentage may change or be eliminated. Absent Congressional action, the sequester reductions will continue through and including FY 2024, with the sequestration reduction rate being set at different percentages each year.