

INSIGHTS

FY 2021 Sequestration Reduction Rate for Direct Pay Tax Credit Bonds Set at 5.7%

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According to the IRS [website](#), the sequester reduction rate applied to payments made to issuers of direct pay tax credit bonds **in fiscal year 2021 will be 5.7 percent**. This percentage will apply to all subsidy payments scheduled to be made on or after October 1, 2020 through and including September 30, 2030.

The fiscal year 2021 sequestration reduction rate represents a decrease from the fiscal year 2020 sequestration reduction rate of 5.9 percent. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise affects the sequester, at which time the sequestration reduction rate is subject to change.

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. As we have [previously posted](#), the Tax Cuts and Jobs Act eliminated the ability to issue all categories of direct pay bonds after December 31, 2017. However, issuers who issued direct pay bonds before January 1, 2018 (and have not otherwise refunded such bonds) continue to be eligible to receive the federal subsidy payment (reduced by the applicable sequestration reduction rate).

For more information regarding the sequester reduction rate, please contact [Todd Greenwalt](#), [Victoria Ozimek](#) or [Brian Teaff](#).