AMTEC

American Municipal
Tax-Exempt Compliance

Arbitrage Rebate Calculations: Are You on Schedule?

With arbitrage rebate calculations, the right schedule can make all the difference. **Issuers who take an active approach to managing their requirements are much better positioned to ensure compliance with IRS regulations in an efficient manner.** The following table compares active and passive approaches to arbitrage rebate compliance—and highlights the potential negative consequences of waiting too long to initiate the process.

Timeline	The ACTIVE Approach	The PASSIVE Approach
New Issue Closing Date	▪ Issuer engages rebate consultant to initiate Internal Revenue Code and Arbitrage Regulations compliance	▪ Issuer is too busy to engage rebate consultant ▪ Decision is made to wait until due date for rebate calculation is closer
Six Months from Closing Date	▪ Issuer receives initial rebate report and knows if rebate exception is possible	▪ Issuer is unaware of specific rebate exception rules and whether rebate liability has accrued
One Year from Closing Date	▪ Issuer knows rebate liability exists and has established a reserve ▪ Issuer receives investment portfolio results and repositions investments to earn maximum income	▪ Issuer is not focused on rebate analysis ▪ Lack of portfolio performance information prevents opportunity for investment optimization
Two Years from Closing Date	▪ Issuer receives updated accumulated rebate liability and confirms reserve amount	▪ Issuer has no knowledge about whether a rebate liability has accumulated ▪ Issuer considers options and reinvests in lower yielding investments as a safeguard
Three Years from Closing Date	▪ Proceeds are spent, project is completed ▪ Rebate liability is identified and proceeds are set aside for future payment ▪ Additional earnings on investment portfolio are used to offset other issuer expenses	▪ Proceeds are spent, project is completed ▪ Additional earnings are disbursed without regard to potential rebate due
Five Years from Closing Date	▪ Rebate calculation is updated and liability is paid	▪ Auditors/IRS request rebate calculation ▪ RFP process for rebate consultant begins ▪ Important records now five years old and not easily located due to staff turnover and software upgrades ▪ Staff members work to reconstruct necessary details ▪ Rebate consultant has considerable difficulty interpreting data due to missing accounting records, process continues and clock is ticking ▪ Rebate calculation is eventually completed
Final Outcome	**Tax compliance is achieved**	Rebate liability has accumulated and money must be pulled from other sources unexpectedly, **creating budget challenges**

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Tax-exempt bond compliance is complicated, but necessary. Without the right expertise, costly mistakes can occur in the calculation process, potentially leading to late filing interest and penalties, or even loss of tax-exempt status for bonds.

WHAT IS ARBITRAGE?

Arbitrage refers to the excess interest income that issuers may earn through investing tax-exempt bond proceeds in higher yielding taxable securities. Section 148 of the Internal Revenue Code of 1986, referred to as the Arbitrage Regulations, permits a tax-exempt issuer to earn arbitrage only in specified circumstances, and in most cases requires any arbitrage profit to be paid to the U.S. Treasury. The IRS requires that arbitrage calculations be completed no later than five years from the date of a bond's issuance, every five years thereafter, and upon final maturity.

ABOUT AMTEC

American Municipal Tax-Exempt Compliance (AMTEC) is an independent family- and minority-owned tax compliance specialty firm. We are a qualified Minority and Small Business Enterprise (MBE/SBE). **100% of our resources are pledged to arbitrage rebate and refunding verification services.** We currently serve a national client base that includes state governments and agencies, counties, cities, school districts and conduit issuers. Our founder began performing arbitrage rebate calculations in 1986 before establishing AMTEC in 1990—and today we remain **the oldest dedicated arbitrage rebate specialty firm.**