

INSIGHTS

FY 2015 Sequestration Reduction Percentage for Direct Pay Tax Credit Bonds Bumps Up to 7.3 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 2015 will be 7.3 percent. This new percentage will apply to all direct credit subsidy payments scheduled to be made on or after October 1, 2014 through and including September 30, 2015. 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 2015 percentage is slightly higher than the effective sequestration reduction rate of 7.2. Congress may still alter the sequester for FY 2015, 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. Originally, the sequester reductions were set to expire in FY 2021, but legislation passed earlier this year extended the timeline.