[FR Doc. 2024–31130 Filed 12–27–24; 8:45 am]
BILLING CODE 4410–09–P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 10020]

RIN 1545–BI22

Reissuance of State or Local Bonds

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations that address when tax-exempt bonds are treated as retired for certain Federal income tax purposes. The final regulations are necessary to unify and to clarify existing guidance on this subject. The final regulations affect State and local governments that issue tax-exempt bonds.

DATES:

Effective date: These regulations are effective on December 30, 2024.

Applicability date: For dates of applicability, *see* § 1.150–3(f).

FOR FURTHER INFORMATION CONTACT: Zoran Stojanovic, (202) 317–6980 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Authority

This document contains final regulations that amend the Income Tax Regulations (26 CFR part 1) by adding final regulations under section 150 and amending the regulations under section 1001 of the Internal Revenue Code (Code) to provide rules for determining when tax-exempt bonds are treated as retired for purposes of sections 103 and 141 through 150 of the Code (final regulations).

These final regulations are promulgated under the express delegation of authority in section 7805(a) of the Code, which authorizes the Secretary of the Treasury or her delegate to ''prescribe all needful rules and regulations for the enforcement of [the Code], including all rules and regulations as may be necessary by reason of any alteration of law in relation to internal revenue.''

Background

On December 31, 2018, a notice of proposed rulemaking (REG–141739–08) regarding retirement of tax-exempt bonds was published in the **Federal Register** (83 FR 67701) (proposed regulations). No public hearing was requested or held. Five public comments responding to the proposed regulations were received and are available at *https://www.regulations.gov* or upon request. After careful consideration of all the written comments, the proposed regulations are adopted as amended by this Treasury decision in response to such comments as described in the *Summary of Comments and Explanation of Revisions.*

1. Overview

In general, under section 103, interest received by the holders of certain bonds issued by State and local governments is exempt from Federal income tax. To qualify for the tax exemption, a bond issued by a State or local government must satisfy various eligibility requirements under sections 141 through 150 at the time of issuance of the bond. If the issuer and holder agree after issuance to modify the terms of a tax-exempt bond significantly, the original bond may be treated as having been retired and exchanged for a newly issued, modified bond. Similarly, if the issuer or its agent acquires and resells the bond, the bond may be treated as having been extinguished upon acquisition and replaced upon resale with a newly issued bond.

The term ''reissuance'' commonly refers to the effect of a transaction in which a new bond is deemed to be issued in place of an old bond as a result of retirement of the old bond pursuant to such an exchange or extinguishment. In the case of a reissuance, the reissued bond must be retested for qualification under sections 103 and 141 through 150. The reissuance of an issue of tax-exempt bonds may result in various negative consequences to the issuer, such as changes in yield for purposes of the arbitrage investment yield restrictions under section 148(a), acceleration of arbitrage rebate payment obligations under section 148(f), and change-in-law risk.

2. Tender Option Bonds

Tender option bonds and variable rate demand bonds (collectively, tender option bonds) have special features that present reissuance questions. Specifically, tender option bonds have original terms that provide for a tender option interest rate mode, as described in this paragraph. Issuers of tax-exempt bonds often preauthorize several different interest rate modes in the bond documents and retain an option to switch interest rate modes under parameters set forth in the bond documents. During a tender option mode, tender option bonds have short-term interest rates that are reset periodically at various short-term intervals (typically, every seven days) based on the current market rate necessary to remarket the bonds at par. In connection with each resetting of the interest rate, the holder of a tender option bond has a right or requirement to tender the bond back to the issuer or its agent for purchase at par. Tender option bonds generally are structured with these short-term features supported by put options to enable the bonds to be eligible for purchase by tax-exempt money market funds pursuant to 17 CFR 270.2a–7 (Rule 2a–7 under the Investment Company Act of 1940).

Tender option bonds also may have interest rate mode conversion options that permit the issuer or conduit borrower to change the interest rate mode on the bonds from a tender option mode to another short-term interest rate mode or to a fixed interest rate to maturity. At the time of a conversion to another interest rate mode, the holder of a tender option bond typically has the right or requirement to tender the bond for purchase at par.

Tender option bonds generally have third-party liquidity facilities from banks or other liquidity providers to ensure that there is sufficient cash to repurchase the bonds upon a holder's tender, and they also commonly have credit enhancement from bond insurers or other third-party guarantors. Upon a holder's exercise of its tender rights in connection with either a resetting of the interest rate during a tender option mode or a conversion to another interest rate mode, a remarketing agent or a liquidity provider typically will acquire the bonds subject to the tender and resell the bonds either to the same bondholders or to others willing to purchase such bonds.

3. Existing Guidance

To address reissuance questions related to tax-exempt bonds, on December 27, 1988, the Department of the Treasury (Treasury Department) and the IRS published Notice 88–130, 1988–2 CB 543, which provides rules for determining when a tax-exempt bond is retired for purposes of sections 103 and 141 through 150. Notice 88–130 provides in part that a tax-exempt bond is retired when there is a change to the terms of the bond that results in a disposition of the bond for purposes of section 1001. In addition, Notice 88–130 provides special rules for retirement of certain tender option bonds that meet a definition of the term ''qualified tender bond.''

On June 26, 1996, the Treasury Department and the IRS published final regulations under § 1.1001–3 of the Income Tax Regulations (1996 final regulations) in the **Federal Register** (61 FR 32926). The 1996 final regulations provide rules for determining whether a modification of the terms of a debt instrument, including a tax-exempt bond, results in an exchange for purposes of section 1001. In recognition of a need to coordinate the interaction of the prior guidance in Notice 88–130 with the 1996 final regulations for particular tax-exempt bond purposes, the Treasury Department and the IRS stated their intention to issue regulations under section 150 on this subject in the preamble of the 1996 final regulations. *See* 61 FR 32930.

On April 14, 2008, the Treasury Department and the IRS published Notice 2008–41, 2008–1 CB 742. Like Notice 88–130, Notice 2008–41 provides rules for determining when a tax-exempt bond is retired for purposes of sections 103 and 141 through 150 and includes special rules for qualified tender bonds. While the retirement standards provided in these two notices are similar, Notice 2008–41 was intended to coordinate the retirement standards for tax-exempt bond purposes with the 1996 final regulations on modifications of debt instruments under § 1.1001–3 and to be more administrable than Notice 88–130. In order to preserve flexibility and to limit potential unintended consequences during the 2008 financial crisis, Notice 2008–41 permitted issuers to apply either notice. Generally, under Notice 2008–41, a tax-exempt bond is retired when a significant modification to the terms of the bond occurs under § 1.1001–3, the bond is acquired by or on behalf of its issuer, or the bond is otherwise redeemed or retired. The notice clarifies that, for purposes of these retirement standards, the purchase of a tax-exempt bond by a third-party guarantor or third-party liquidity facility provider pursuant to the terms of the guarantee or liquidity facility is not treated as a purchase or other acquisition by or on behalf of a governmental issuer. Although these general rules apply to a qualified tender bond, Notice 2008–41 also provides that certain features of qualified tender bonds will not result in a retirement. In Notice 2008–41, the Treasury Department and the IRS reiterated their intention to provide guidance on the retirement of tax-exempt bonds in regulations under section 150.

The proposed regulations provide rules for determining when tax-exempt bonds are treated as retired for purposes of sections 103 and 141 through 150. The proposed regulations also amend § 1.1001–3(a)(2) of the 1996 final regulations to conform that section to the special rules in the proposed regulations for retirement of qualified tender bonds.

Summary of Comments and Explanation of Revisions

After consideration of the public comments, the Treasury Department and the IRS adopt the proposed regulations as amended by this Treasury decision. This section of the preamble discusses the public comments and the revisions made in the final regulations in response to those comments.

1. General Rules for Retirement of a Tax-Exempt Bond

The proposed regulations generally provide standards for determining when a tax-exempt bond is retired for purposes of sections 103 and 141 through 150, including certain special rules for determining when qualified tender bonds are retired.

One comment suggested expanding the scope of the final regulations to cover taxable tax-advantaged bonds, such as direct pay build America bonds and tax credit bonds, because some of those bonds were also issued as tender option bonds that would benefit from the special rules for qualified tender bonds. The authorizations for these taxable tax-advantaged bonds, however, have been very limited in both time and amount, and very few of these bonds have been issued as tender option bonds. Furthermore, section 13404 of Public Law 115–97, 131 Stat. 2054, 2138 (December 22, 2017), commonly referred to as the Tax Cuts and Jobs Act, repealed the existing authority in the Code for taxable tax-advantaged bonds. Because no taxable tax-advantaged bonds currently may be issued and very few historically have been issued as tender option bonds, the Treasury Department and the IRS have determined that expanding the scope of the final regulations to include those bonds lacks sufficient justification. Accordingly, the final regulations do not adopt this comment.

The proposed regulations generally provide that a tax-exempt bond is retired if a significant modification to the terms of the bond occurs under § 1.1001–3, the issuer or an agent acting on its behalf acquires the bond in a manner that liquidates or extinguishes the bondholder's investment in the bond, or the bond is otherwise redeemed (for example, redeemed at maturity).

The final regulations make one technical change to the second general rule regarding debt extinguishment to remove the reference to the ''bondholder's investment'' and thus to focus more clearly on the merger of interests and attendant extinguishment that occurs when an issuer acquires its own bond either directly or through an agent.

Two comments recommended allowing an issuer to make an election to treat a tax-exempt bond as retired and reissued under the final regulations. These comments noted that it is sometimes unclear whether a transaction results in the retirement and reissuance of a tax-exempt bond. The comments described several specific situations in which such an election could address this uncertainty. The Treasury Department and the IRS recognize that such an election could reasonably reduce the burden on issuers in certain specific situations. However, the Treasury Department and the IRS have concerns that an unrestricted right to elect retirement and reissuance of tax-exempt bonds could result in unintended consequences. In response to this comment and to provide flexibility to address this issue in appropriate, tailored circumstances, the final regulations authorize the Commissioner to publish guidance in the Internal Revenue Bulletin that allows issuers to elect to treat tax-exempt bonds as retired and reissued in specific circumstances for purposes of sections 103 and 141 through 150.

2. Exceptions to Retirement of a Tax-Exempt Bond

The proposed regulations provide three exceptions to the operation of the general rules that limit retirements of tax-exempt bonds. Two of these exceptions prevent the special features of tender option bonds from resulting in a retirement. A third exception applies to all tax-exempt bonds.

A. Definition of Qualified Tender Bond

The first two exceptions in the proposed regulations apply to qualified tender bonds, which are defined to cover tender option bonds that meet certain requirements. Specifically, a qualified tender bond is subject to certain limitations on interest rate, timing of interest payments, and maturity. A qualified tender bond must also include a qualified tender right. The proposed regulations generally define a qualified tender right as a right or obligation of the holder of a bond to tender the bond for purchase by the issuer, its agent, or another party at a purchase price equal to par plus any accrued interest. Under the proposed regulations, a qualified tender right must also require the issuer or its remarketing agent to redeem the bond or to use reasonable best efforts to resell the bond within the 90 days of the tender at a purchase price equal to par plus any accrued interest.

Four comments urged the Treasury Department and the IRS to amend the definition of a qualified tender right in the final regulations to allow a bond to be resold at a premium or discount price relative to the par amount of the bond (rather than just at a price equal to par as under the proposed regulations) when the qualified tender right is exercised in connection with a conversion of the interest rate mode to a fixed rate for the remaining term of the bond. The comments noted that, when a long-term fixed rate bond is originally issued at par, a sustained upward trend in interest rates can result in the bond having market discount as it is resold in the secondary market. If that market discount exceeds the permitted de minimis amount, the discount will be taxed as ordinary income to the holder. Premium included in the sale price of a long-term fixed rate tax-exempt bond serves as a buffer against market discount as interest rates rise over time. Accordingly, qualified tender bonds resold at a premium upon conversion of the interest rate mode on the bonds to a fixed rate to maturity generally have greater market demand and a lower yield than they would have if resold at par. The comments also noted that, even when an issue of fixed rate tax-exempt bonds is resold at an aggregate net premium price, certain bonds within the issue may be resold at a discount. The comments further noted that Notice 2008–41 permitted qualified tender bonds to be resold at a premium or a discount upon conversion of the interest rate mode to a fixed rate to maturity and treated the premium received by the issuer upon resale of the bonds as additional sale proceeds for purposes of the arbitrage investment restrictions under section 148. The final regulations adopt this comment.

One comment pointed out a technical discrepancy in the proposed regulations under which a bond may be purchased pursuant to a qualified tender right by the issuer, the issuer's agent, or another party, whereas the bond must be resold under the terms of a qualified tender right by the issuer or a remarketing agent. The comment recommended that the final regulations clarify this technical issue in the definition of a qualified tender right so that the parties that may purchase the tendered bond (that is, the issuer, the issuer's agent, or another party) are also permitted to resell the bond. The comment advised against use of the term ''remarketing agent'' on the grounds that the party charged with reselling the bond may not be an agent of the issuer and the resale may be a private placement rather than a remarketing. The final regulations adopt this comment.

B. Exceptions to Retirement of a Qualified Tender Bond

A qualified tender bond has two features that could result in retirement of the bond under the general rules for retirement in the proposed regulations. First, the existence or exercise of a qualified tender right in connection with an alteration under the terms of the bond could cause the alteration to be a modification under § 1.1001–3 and, if significant, that modification would result in retirement of the qualified tender bond under § 1.150–3(b)(1) of the proposed regulations. For example, when accompanied by a tender right, an exercise of the issuer's option to change the interest rate or the interest rate mode under the terms of the bond could be a modification under the rule in § 1.1001–3(c)(2)(iii) for alterations that result from the exercise of an option because the holder's resulting right to put the bond to the issuer or its agent under the qualified tender right upon the interest rate conversion could cause the issuer's option to fail to qualify as a unilateral option under § 1.1001–3(c)(3)(i). Similarly, an issuer may be uncertain as to whether the periodic change in interest rate that occurs pursuant to the terms of a bond operating in a tender option mode could be a modification under § 1.1001–3 when accompanied by a tender right. To address these circumstances, the proposed regulations provide a special exception that avoids retirement by disregarding a qualified tender right for purposes of applying § 1.1001–3 to determine whether an alteration of a qualified tender bond constitutes a significant modification under § 1.1001–3 that results in retirement of the bond.

One comment requested that the final regulations clarify whether this exception applies to a qualified tender right arising in connection with any alteration of the terms of the bond or only to a qualified tender right arising in connection with a change in interest rate or interest rate mode. The scope of the analogous provisions in Notices 88–130 and 2008–41 was limited to circumstances covering changes in the interest rate or interest rate mode only. The Treasury Department and the IRS intended for this special rule to be similarly limited in scope. In response to the comment, the final regulations clarify that the special rule for disregarding a qualified tender right in applying § 1.1001–3 to a qualified tender bond applies only for the purpose of determining whether an alteration of the interest rate or interest rate mode pursuant to the terms of a qualified tender bond results in a retirement. The determination of whether any other alteration to the terms of a qualified tender bond, such as a change in maturity or collateral, results in a retirement under § 1.150–3(b)(1)(i) is made under the general rules in § 1.1001–3 without the benefit of the special exception in § 1.150–3(c)(1), even if the alteration occurs contemporaneously with a change in interest rate or interest rate mode on the bond.

One comment recommended that the final regulations include several additional exceptions to the general rule under § 1.150–3(b)(1) that a bond is retired for purposes of sections 103 and 141 through 150 when a significant modification occurs under § 1.1001–3. Specifically, this comment requested that the final regulations include a rule from Notice 2008–41 that a modification that changes the collateral or credit enhancement on a nonrecourse tax-exempt bond is significant only if the change results in a change in payment expectations under § 1.1001–3(e)(4)(vi). This special rule involved an accommodation for circumstances in the 2008 financial crisis. This comment also requested that the final regulations retain the exception in Notice 88–130 for qualified corrective changes. This exception from 1988 preceded the significant modification standard under § 1.1001–3, which was finalized in the 1996 final regulations. In most circumstances, these qualified corrective changes would not be significant modifications under § 1.1001–3. Further, a significant purpose of the final regulations is to improve administrability in a complex area of law by integrating the rules for retirement of a tax-exempt bond as closely as possible with the existing rules under § 1.1001–3. Accordingly, the final regulations do not adopt these comments.

The second feature of a qualified tender bond that could result in retirement of the bond under the general rules for retirement in the proposed regulations is the feature under which an issuer or its agent may acquire the bond upon the holder's exercise of the qualified tender right. The general rules for retirement treat an acquisition of a bond by an issuer or an issuer's agent in a manner that extinguishes the bond as a retirement of the bond. To address this circumstance, the proposed regulations provide an exception under which the acquisition of a qualified tender bond pursuant to the exercise of a qualified tender right will not result in retirement, provided that neither the issuer nor its agent holds the bond for longer than 90 days. One comment recommended expanding this special rule to cover all tax-exempt bonds rather than just qualified tender bonds. This exception is limited to qualified tender bonds because the rate-setting mechanism on those bonds may require the issuer or its agent to purchase a tendered bond if a buyer for the bond cannot be found when the bond is tendered. The Treasury Department and the IRS have adopted this limited exception for the narrowly defined class of qualified tender bonds because the acquisition of those bonds occurs pursuant to the ordinary operation of the rate-setting mechanism on those bonds. In addition, qualified tender bonds represent a significant structured type of bonds in the tax-exempt bond market tailored to money market fund investors and the Treasury Department and the IRS have supported this structure with accommodating special rules consistently in all of the existing guidance in this area. Other tax-exempt bonds do not rely on this exception for the ordinary operation of their rate-setting mechanism. The Treasury Department and the IRS decline to expand this exception to allow issuers to hold their own bonds more generally because of concerns regarding the implications for the debt extinguishment principle. Accordingly, the final regulations do not adopt this comment.

One comment recommended continuing a special rule from Notice 2008–41 that modified the definition of program investment for purposes of arbitrage investment restrictions under § 1.148–1(b). Ordinarily, this definition prohibits a conduit borrower of tax-exempt bond proceeds from purchasing the bonds that financed the conduit loan in an amount that is related to the conduit loan. Notice 2008–41 modified this rule so that a conduit borrower could purchase any auction rate bonds that financed the conduit loan, provided the conduit borrower purchased the bonds to facilitate liquidity under adverse market conditions. This special rule permitted conduit borrowers to buy those bonds to address extraordinary circumstances in the 2008 financial crisis and to increase liquidity at a time of market crisis involving the collapse of the auction rate bond market and downgrades of bond insurers. The Treasury Department and the IRS decline to extend this special rule beyond the conditions under which the rule was promulgated. Accordingly, the final regulations do not adopt this comment.

C. Additional Exceptions for All Tax-Exempt Bonds

The proposed regulations also provide an exception to the general rules of retirement for all tax-exempt bonds. This exception, carried forward from Notice 2008–41, provides that acquisition of a tax-exempt bond by a guarantor or liquidity facility provider acting as the issuer's agent does not result in retirement of the bond if the acquisition is pursuant to the terms of the guarantee or liquidity facility and the guarantor or liquidity facility provider is not a related party (as defined in § 1.150–1(b)) to the issuer. No public comments were received on this provision. The final regulations adopt this provision without change.

The proposed regulations provide that a tax-exempt bond is retired for purposes of sections 103 and 141 through 150 when a significant modification occurs under § 1.1001–3. Section 1.1001–3(e)(5)(i) generally provides that, subject to the special rule in § 1.1001–3(f)(7), a modification of a debt instrument that results in an instrument or property right that is not debt for Federal income tax purposes is a significant modification. Section 1.1001–3(f)(7)(ii)(A) generally provides that, in determining whether a modification of a debt instrument results in an instrument or property right that is not debt, any deterioration in the financial condition of the obligor between the issue date of the debt instrument and the date of the modification is not taken into account. One comment recommended that, when new bonds are issued and the proceeds are used to currently refund outstanding bonds, issuers be allowed to apply the credit deterioration rule in § 1.1001–3(f)(7) to treat the new bonds as a continuation of the refunded bonds for purposes of sections 103 and 141 through 150. The Treasury Department and the IRS have concluded that there is not sufficient justification to expand the scope of the final regulations to include rules for new issuances of tax-exempt bonds. Accordingly, the final regulations do not adopt this comment.

3. Effect of Retirement of a Tax-Exempt Bond

The proposed regulations prescribe certain consequences for a bond that is retired pursuant to a deemed exchange under § 1.1001–3 or retired following the acquisition of the bond by the issuer or the issuer's agent. Upon a deemed exchange under § 1.1001–3, the bond is treated as a new bond issued at the time of the significant modification as determined under § 1.1001–3. Upon an issuer's acquisition of its own bond, absent any special rule, the bond is extinguished and retired. One comment recommended permitting an issuer that purchases its own tax-exempt bond to treat the resale of that bond as a refunding of the bond extinguished by the purchase. The comment suggested that the issuer be permitted to allocate the proceeds from the resale of the bond to the expenditure incurred in the purchase of the bond under rules similar to the rules for using proceeds of tax-exempt bonds to ''reimburse'' previous expenditures under the reimbursement expenditure rules in § 1.150–2. Section 1.150–2(g)(1), however, specifically prohibits using bond proceeds to reimburse expenditures incurred in repayment of tax-exempt bonds. Modification of the reimbursement rules to encompass refundings of extinguished and retired bonds is beyond the scope of the final regulations. The final regulations do not adopt this comment.

4. Applicability Dates

Under the proposed regulations, the final rules would apply to events and actions taken with respect to bonds that occur on or after the date that is 90 days after the date of publication of the final regulations in the **Federal Register**. The proposed regulations further state that issuers may apply the proposed regulations to events and actions taken with respect to bonds that occur before that date. One comment recommended applying the final regulations only to bonds issued after the applicability date of the final regulations. This comment noted that outstanding bonds are structured to avoid retirement under the existing guidance and potentially might not avoid retirement under the final regulations. The Treasury Department and the IRS are concerned that this approach would continue the application of the disparate existing guidance in this area for a substantial period of time for the entire current outstanding volume of tax-exempt bonds in the municipal bond market. The principal goals of the final regulations are to unify, clarify, and improve the administrability of the existing guidance on retirement of tax-exempt bonds. The Treasury Department and the IRS have determined that publishing the final regulations without also obsoleting

Notice 88–130 and Notice 2008–41 would undermine the unifying and streamlining purposes of the final regulations. In addition, the final regulations and Notice 2008–41 are similar and generally should produce similar results in most cases outside of special circumstances involving the 2008 financial crisis. Accordingly, the final regulations do not adopt this comment.

However, to provide a longer transition period for outstanding tax-exempt bonds, the final regulations provide a period of one year from the date the final regulations are published in the **Federal Register** during which issuers may continue to apply Notice 88–130 or Notice 2008–41. As a result, the final regulations apply to events occurring and actions taken with respect to bonds on or after December 30, 2025, though an issuer may choose to apply the final regulations to events occurring and actions taken with respect to bonds on or after December 30, 2024.

Effect on Other Documents

Notice 88–130 and Notice 2008–41 are obsolete as of December 30, 2025.

Special Analyses

I. Regulatory Planning and Review

Pursuant to the Memorandum of Agreement, Review of Treasury Regulations under *Executive Order 12866 (June 9, 2023),* tax regulatory actions issued by the IRS are not subject to the requirements of section 6 of *Executive Order 12866,* as amended. Therefore, a regulatory impact assessment is not required.

II. Regulatory Flexibility Act

Pursuant to the Regulatory Flexibility Act (RFA), it is hereby certified that these final regulations will not have a significant economic impact on a substantial number of small entities. The final regulations affect State and local governments that issue tax-exempt bonds. States are not considered small entities for purposes of the RFA but small governmental jurisdictions (jurisdictions with populations less than 50,000) are considered small entities. The Treasury Department and the IRS do not have data on how many small governmental jurisdictions may be affected by these regulations, but it may be a substantial number.

Even if a substantial number of small entities are affected, the economic impact of these regulations will not be significant. These final regulations consolidate and clarify the existing guidance on retirement and reissuance of tax-exempt bonds published in Notices 88–130 and 2008–41. Therefore, these final regulations will not create additional obligations for, or impose an economic impact on, a substantial number of small entities. Accordingly, a regulatory flexibility analysis is not required.

Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking preceding this regulation was submitted to the Chief Counsel for the Office of Advocacy of the Small Business Administration for comment on its impact on small governmental jurisdictions and no comments were received.

III. Unfunded Mandates Reform Act

Section 202 of the Unfunded Mandates Reform Act of 1995 (UMRA) requires that agencies assess anticipated costs and benefits and take certain other actions before issuing a final rule that includes any Federal mandate that may result in expenditures in any one year by a State, local, or Tribal government, in the aggregate, or by the private sector, of $100 million in 1995 dollars, updated annually for inflation. These regulations do not include any Federal mandate that may result in expenditures by State, local, or Tribal governments, or by the private sector in excess of that threshold.

IV. Executive Order 13132: Federalism

Executive Order 13132 (Federalism) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial, direct compliance costs on State and local governments, and is not required by statute, or preempts State law, unless the agency meets the consultation and funding requirements of section 6 of the Executive order. The final regulations do not have federalism implications and do not impose substantial direct compliance costs on State and local governments or preempt State law within the meaning of the Executive order.

V. Congressional Review Act

Pursuant to the Congressional Review Act (5 U.S.C. 801 *et seq.*), the Office of Information and Regulatory Affairs designated this rule as not a major rule, as defined by 5 U.S.C. 804(2).

Statement of Availability of IRS Documents

Any IRS Revenue Procedure, Revenue Ruling, Notice, or other guidance cited in this document is published in the Internal Revenue Bulletin (or Cumulative Bulletin) and are available from the Superintendent of Documents, U.S. Government Publishing Office, Washington, DC 20402, or by visiting the IRS website at *https://www.irs.gov.*

Drafting Information

The principal author of these regulations is Zoran Stojanovic of the Office of Associate Chief Counsel (Financial Institutions and Products). However, other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

■ **Par. 2.** Section 1.150–3 is added to read as follows:

§ 1.150–3 Retirement standards for state and local bonds.

(a) *General purpose and scope.* This section provides rules to determine when a tax-exempt bond is retired solely for purposes of sections 103 and 141 through 150 of the Internal Revenue Code (Code).

(b) *Retirement of a tax-exempt bond*—(1) *General rules.* Except as otherwise provided in paragraph (c) of this section, a tax-exempt bond is retired when:

(i) A significant modification of the bond occurs under § 1.1001–3;

(ii) The issuer or its agent acquires the bond in a manner that extinguishes the bond; or

(iii) The bond is otherwise redeemed (for example, redeemed at maturity).

(2) *Elective retirement.* In guidance published in the Internal Revenue Bulletin (*see* § 601.601(d)(2)(ii)(*a*) of this chapter), the Commissioner may set forth specific circumstances under which an issuer may elect to treat a tax-exempt bond as retired for purposes of sections 103 and 141 through 150 of the Code.

(c) *Exceptions to general rules for retirement of a tax-exempt bond*—(1) *Qualified tender right disregarded for certain purposes.* In applying § 1.1001–3 to a qualified tender bond for purposes of paragraph (b)(1)(i) of this section, both the existence and exercise of a qualified tender right are disregarded for purposes of determining whether an alteration of the interest rate or interest rate mode that occurs pursuant to the terms of the bond is a modification. Thus, an issuer's exercise of an option to alter the interest rate or interest rate mode on a qualified tender bond generally is not a modification under § 1.1001–3 because the alteration occurs by operation of the terms of the bond and the holder's resulting right to put the bond to the issuer or the issuer's agent pursuant to the disregarded qualified tender right does not prevent the issuer's option from qualifying as a unilateral option under § 1.1001–3(c)(3) that would not give rise to a modification.

(2) *Acquisition pursuant to a qualified tender right.* An acquisition of a qualified tender bond by the issuer or its agent does not result in the retirement of the bond under paragraph (b)(1)(ii) of this section if the acquisition is pursuant to the operation of a qualified tender right and neither the issuer nor its agent continues to hold the bond after the close of the 90-day period beginning on the date of the tender.

(3) *Acquisition of a tax-exempt bond by a guarantor or liquidity facility provider.* An acquisition of a tax-exempt bond by a guarantor or liquidity facility provider acting on the issuer's behalf does not result in the retirement of the bond under paragraph (b)(1)(ii) of this section if the acquisition is pursuant to the terms of the guarantee or liquidity facility and the guarantor or liquidity facility provider is not a related party (as defined in § 1.150–1(b)) to the issuer.

(d) *Effect of retirement.* If a bond is retired pursuant to paragraph (b)(1)(i) of this section (that is, in a transaction treated as an exchange of the bond for a bond with modified terms), the bond is treated as a new bond issued at the time of the modification as determined under § 1.1001–3. If the issuer or its agent resells a bond retired pursuant to paragraph (b)(1)(ii) of this section, the bond is treated as a new bond issued on the date of resale. The rules of § 1.150–1(d) apply to determine if the new bond is part of a refunding issue.

(e) *Definitions.* For purposes of this section, the following definitions apply:

(1) *Issuer* means the State or local governmental unit (as defined in § 1.103–1) that actually issues the tax-exempt bond and any related party (as defined in § 1.150–1(b)) to the actual issuer (as distinguished, for example, from a conduit borrower that is not a related party to the actual issuer).

(2) *Qualified tender bond* means a tax-exempt bond that, pursuant to the terms of the bond, has all of the following features:

(i) During each authorized interest rate mode, the bond bears interest at a fixed interest rate, a qualified floating rate under § 1.1275–5(b), or an objective rate for a tax-exempt bond under § 1.1275–5(c)(5);

(ii) Interest on the bond is unconditionally payable (as defined in § 1.1273–1(c)(1)(ii)) at periodic intervals of no more than one year;

(iii) The bond has a stated maturity date that is not later than 40 years after the issue date of the bond; and

(iv) The bond includes a qualified tender right.

(3) *Qualified tender right* means a right or obligation of a holder of a tax-exempt bond pursuant to the terms of the bond to tender the bond for purchase as described in this paragraph (e)(3). The purchaser under the tender may be the issuer, its agent, or another party. The tender right is available on at least one date before the stated maturity date. For each such tender, the purchase price of the bond is equal to par (plus any accrued interest). Following each such tender, the issuer, its agent, or another party either redeems the bond or uses reasonable best efforts to resell the bond within the 90-day period beginning on the date of the tender. Upon any such resale, the resale price of the bond is equal to the par amount of the bond (plus any accrued interest), except that, if the tender right is exercised in connection with a conversion of the interest rate mode on the bond to a fixed rate for the remaining term of the bond, the bond may be resold at any price, including a premium price above the par amount of the bond or a discount price below the par amount of the bond (plus any accrued interest). Any premium received by the issuer pursuant to such a resale is treated solely for purposes of the arbitrage investment restrictions under section 148 of the Code as additional sale proceeds of the bonds.

(f) *Applicability date*—(1) *General applicability.* This section applies to events occurring and actions taken with respect to bonds on or after December 30, 2025.

(2) *Permissive applicability.* An issuer may choose to apply this section to events occurring and actions taken with respect to bonds on or after December 30, 2024.

■ **Par. 3.** Section 1.1001–3 is amended by revising paragraph (a)(2) to read as follows:

§ 1.10011.1001–3 Modifications of debt instruments.

(a) * * *

(2) *Tax-exempt bonds.* For special rules governing whether tax-exempt bonds are retired for purposes of sections 103 and 141 through 150 of the Internal Revenue Code, *see* § 1.150–3.

* * * * *

Douglas W. O'Donnell,

Deputy Commissioner.

Approved: December 8, 2024.

Aviva R. Aron-Dine,

Deputy Assistant Secretary of the Treasury (Tax Policy).

[FR Doc. 2024–30267 Filed 12–27–24; 8:45 am]

BILLING CODE 4830–01–P

DEPARTMENT OF HOMELAND SECURITY

Coast Guard

33 CFR Part 165

[Docket Number USCG–2024–0205]

RIN 1625–AA11

Regulated Navigation Area; Port of Miami, Miami, FL

AGENCY: Coast Guard, DHS.

ACTION: Final rule.

SUMMARY: The Coast Guard is establishing a regulated navigation area for certain waters surrounding the Port of Miami. This action is necessary to enhance the protection of high-risk vessel and port operations while reducing navigational hazards to waterway users and mariners by controlling vessel speeds. This rule will establish a slow speed zone throughout Fisherman's Channel and the Main Ship Channel for vessels less than 50 meters in length.

DATES: This rule is effective January 29, 2025.

ADDRESSES: To view documents mentioned in this preamble as being available in the docket, go to *https://www.regulations.gov,* type USCG–2024–0205 in the search box and click ''Search.'' Next, in the Document Type column, select ''Supporting & Related Material.''

FOR FURTHER INFORMATION CONTACT: If you have questions about this rule, call or email Mr. David Lieberman, District 7 Dpw, U.S. Coast Guard; telephone (206) 827–3637, email *David.L.Lieberman2@uscg.mil.*

SUPPLEMENTARY INFORMATION:

I. Table of Abbreviations

CFR Code of Federal Regulations
COTP Captain of the Port
DHS Department of Homeland Security
FR Federal Register
LNG Liquified Natural Gas
NAVCEN Coast Guard Navigation Center
NOI Notice of Intent