**Effect of Sequestration on Certain State & Local Government Filers of Form 8038-CP**

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions will take place as of March 1, 2013.  These required reductions include a reduction to refundable credits under section 6431 of the Internal Revenue Code applicable to certain qualified bonds.  The sequester reduction is applied to section 6431 amounts claimed by an issuer on any [Form 8038-CP](http://www.irs.gov/pub/irs-pdf/f8038cp.pdf) filed with the Service which results in a payment to such issuer on or after March 1, 2013. The sequestration reduction rate will be applied until the end of the fiscal year (September 30, 2013) or intervening Congressional action, at which time the sequestration rate is subject to change.

These reductions apply to Build America Bonds, Qualified School Construction Bonds, Qualified Zone Academy Bonds, New Clean Renewable Energy Bonds, and Qualified Energy Conservation Bonds for which the issuer elected to receive a direct credit subsidy pursuant to section 6431.  As determined by the Office of Management and Budget, payments to issuers from the budget accounts associated to these qualified bonds are subject to a reduction of 8.7% of the amount budgeted for such payments.

Issuers should complete [Form 8038-CP](http://www.irs.gov/pub/irs-pdf/f8038cp.pdf) in the manner provided by the [Form 8038-CP Instructions](http://www.irs.gov/pub/irs-pdf/i8038cp.pdf).  Affected issuers will be notified through correspondence that a portion of their requested payment was subject to the sequester reduction.  Issuers should use this correspondence to identify the portion(s) of amounts requested that were subject to the sequester reduction.

**Please note that sequestration does not affect the 2011, 2012 and 2013 QZAB allocations, since the bond issuer does not receive direct credit subsidy payments from the US Treasury.**