**Update: 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, refund payments to certain state and local government filers claiming refundable credits under section 6431 of the Internal Revenue Code applicable to certain qualified bonds are subject to sequestration. This means that refund payments processed on or after October 1, 2013 and on or before September 30, 2014 will be reduced by the fiscal year 2014 sequestration rate of 7.2 percent, irrespective of when the amounts claimed by an issuer on any Form 8038-CP was filed with the IRS. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction 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.  Issuers should complete Form 8038-CP in the manner provided by the Form 8038-CP Instructions, and 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.**