Fairfax County Economic Development Authority v. Commissioner, 77 T.C. 546 (1981)

Industrial development bonds used to finance facilities for the federal government are not tax-exempt under Section 103(a) and do not qualify as obligations of a state or political subdivision; further, the federal government is not considered an 'exempt person' under Section 103(b)(3), and capital expenditures of the entire U.S. government must be aggregated for small issue exemptions.

Summary

Fairfax County Economic Development Authority sought a declaratory judgment that proposed bonds to finance a facility for the U.S. Government Printing Office (GPO) would be tax-exempt industrial development bonds. The Tax Court held that the bonds were not tax-exempt. The court reasoned that these bonds were not obligations of a state or political subdivision, as the 'real obligor' was the U.S. Government. Furthermore, the U.S. Government is not an 'exempt person' under relevant tax code provisions. Finally, for the small issue exemption, the capital expenditures of the entire federal government, not just the GPO or legislative branch, must be aggregated, exceeding the $10 million limit. Thus, the bonds failed to qualify for tax exemption.

Facts

Fairfax County Economic Development Authority (Petitioner) planned to issue revenue bonds to finance a facility in Fairfax County, Virginia, for Springbelt Associates Limited Partnership (Springbelt). Springbelt would construct the facility and lease it to the U.S. Government Printing Office (GPO). The GPO intended to consolidate its Washington D.C. area facilities at this location. Leases were signed between Springbelt's assignor and the United States. Petitioner agreed to issue bonds to finance the facility, which Springbelt would purchase from Petitioner via an installment sales contract, subject to the GPO leases. The bond proceeds were estimated at $5.5 million, with $5.3 million for capital expenditures. The bonds included a call provision related to the GPO's lease termination option.

Procedural History

Petitioner sought a declaratory judgment in the Tax Court under Section 7478, seeking a determination that the proposed bonds were tax-exempt industrial development bonds. The case was submitted to the Tax Court for decision based on the administrative record and stipulated facts.

Issue(s)

1. Whether the proposed bonds would be considered obligations of the United States, thus not qualifying for tax exemption under Section 103(a)(1) as obligations of a State or political subdivision.

2. Whether the Federal Government or the GPO is an “exempt person” within the meaning of Section 103(b)(3)(A).
3. For the $10 million small issue exemption under Section 103(b)(6)(D), whether capital expenditures of the GPO, the legislative branch, or the entire U.S. Government should be aggregated.

Holding

1. No, the proposed bonds would not be considered obligations of the United States in form, but in substance, for tax purposes, they are not obligations of a State or political subdivision because the credit and funds backing the bonds are effectively those of the U.S. Government.
2. No, neither the Federal Government nor the GPO is an “exempt person” within the meaning of Section 103(b)(3).
3. The capital expenditures of the entire U.S. Government in Fairfax County must be aggregated, because the GPO is part of the U.S. Government, and for the purpose of small issue exemptions, they are not separate persons.

Court’s Reasoning

The court reasoned that while nominally issued by the Petitioner, the bonds were in substance backed by the U.S. Government due to the GPO lease and the nature of the transaction. The legislative history of Section 103(b) showed that Congress, while aware of the ‘real obligor’ concept for industrial development bonds, chose to create specific exceptions for tax exemption rather than a blanket exemption for bonds nominally issued by state entities but benefiting private or federal interests. The court stated, “Congress adopted a modified ‘real obligor’ theory and excluded interest on certain IDBs only to the extent that the proceeds did not inure to what it perceived to be appropriate public purposes…”

Regarding the ‘exempt person’ status, the court upheld the validity of Treasury Regulations that exclude the U.S. Government from the definition of ‘governmental unit’ for purposes of Section 103(b)(3). The court cited the regulation: “the term ‘governmental unit’ also includes the United States of America (or an agency or instrumentality of the United States of America) but only in the case of obligations (i) issued on or before August 3, 1972…” Since the proposed bonds were to be issued after this date and did not meet the grandfathering provisions, the U.S. Government could not be considered an ‘exempt person’ in this context.

Finally, the court determined that for the small issue exemption, the capital expenditures of the entire U.S. Government must be aggregated. The court reasoned that the GPO is an integral part of the U.S. Government, not a separate ‘person.’ The court stated, “If an unincorporated division of a corporation had been the lessee of this facility, we would not reach the issue of whether it was a ‘related person’ to that corporation; they would be parts of the same ‘person.’ This is the analogy to be drawn in the instant case because the GPO is part of the U.S. Government.”

Aggregation across federal branches was deemed consistent with the purpose of preventing large ventures from using small issue exemptions.

Practical Implications

This case clarifies that the tax-exempt status of industrial development bonds is scrutinized based on the substance of the transaction, not just the nominal issuer. It establishes that financing facilities for the federal government through IDBs does not automatically qualify for tax exemption. Legal practitioners must consider the 'real obligor' principle and the specific definitions within Section 103(b) and its regulations when structuring bond issuances. This decision reinforces that the federal government is generally not an 'exempt person' for IDB purposes and that capital expenditure limits for small issue exemptions are comprehensively applied across the entire federal government, preventing fragmentation to circumvent tax rules. Later cases would rely on this precedent to deny tax exemptions for similar bond issues benefiting federal entities unless specific statutory exceptions applied.

