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Bonds are option for businesses in Valley

Few business owners consider bonds to finance the purchase of industrial real estate and equipment because not many CPAs are aware of private activity bonds (PABs), a seldom publicized program. PABs were designed to meet the needs of small manufacturers so they can tap the same funding sources available to large corporations. New tax legislation enacted in February 2009 and today's low interest rates make this an exciting program for businesses that want to locate or expand their presence in the Valley.

Historically, interest rates have fluctuated between 3% and 5% but are currently less than 1%. The American Recovery and Reinvestment Act expanded the definition of a manufacturer to include software manufacturers, and research and development companies. The Act also eliminated some restrictions on warehouse facilities and washrooms. Fees range from \$125,000 to \$200,000 and can be rolled into the 20 to 30 year term of the bond, making the issuance of bonds feasible when the size exceeds three million dollars. Typically the fees can be recovered in less than 18 months though the lower interest rates.

The process is new to most people and issuing the bonds requires quite a bit of document wrangling. PABs must earn their tax-exempt status by showing they will benefit the community by adding jobs. Companies must show they will build or substantially remodel a facility and hire a predetermined number of employees.

The bond issuance requires a letter of credit; consequently, local banks are crucial to the success of the project. The bank typically requires three years of financial statements, and a one year forward cash projection. Once a project is selected, attorneys are brought in to structure the deal and a company selected to market the bonds.

The bank will draw up its covenants and terms of repayment, the attorneys will prepare the documents, then the issuer will announce a public hearing. Typically, few people attend the hearing and the bond issuer adopts a resolution allowing the bond to be issued. A trustee bank acts as the clearinghouse for the funds and collects the payments and pays the bondholders.

Certainly there are hurdles to cross, but the alternative, Small Business Administration backed loans, have higher interest rates and prepayment penalties.

For more information regarding PABs, contact the inaugural issue of the California State University, Northridge: Tax Development Journal at <http://tdjournal.csunacctis.com/index.php/home/index>. "I am pleased to include so many articles that benefit the local business community and CPA's" said, Robert L. Hymers III, Managing Editor. Not only does the Journal offer information on financing, but also the entertainment industry will find an article on utilizing tax credits, and real estate investors can read about the latest developments in tax free exchanges. We hope this student run journal becomes a resource for understanding how tax law impacts our community.