MEMO# 918

January 13, 1989

IRS ANNOUNCEMENT ON REISSUANCE OF STATE AND LOCAL BONDS

January 13, 1989 TO: UNIT INVESTMENT TRUST MEMBERS NO. 5-89 RE: IRS ANNOUNCEMENT ON REISSUANCE OF STATE AND LOCAL BONDS ____ The Internal Revenue Service (the "IRS") has issued the attached guidance to issuers of state and local government bonds for determining when qualified tender bonds will be considered retired and reissued for purposes of Code Sections 103 and 141- 150. A qualified tender bond is a bond that meets certain maturity limits, pays interest annually, and has an interest rate that is periodically reset to enable the bond to trade at par. The tender feature permits bondholders to redeem the bonds at designated intervals. The IRS announcement provides that a qualified tender bond will not be considered retired or reissued because of preauthorized resettings of tender and interest rate modes. Detailed rules are provided for determining when a qualified tender bond will be treated as retired. A bond which is not a qualified tender bond is treated as retired on the first day that (i) there is a change to the bond's terms that results in a disposition for purposes of section 1001, (ii) the bond is purchased or otherwise acquired by or on behalf of the issuer or a true obligor which is a governmental unit or an agency or instrumentality thereof or (iii) the bond is otherwise retired or redeemed. A bond that is subject to a tender right but is not a qualified tender bond will be treated as if purchased on each tender date pursuant to the tender right (whether or not the tender right is exercised). The rules contained in the announcement will be published in regulations under Code Section 150 and, in general, will apply to all bonds subject to a tender right regardless of when sold. Certain exceptions will apply for bonds originally sold on or before December 14, 1988. We will keep you informed of developments. Keith D. Lawson Assistant General Counsel Attachment