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This report is issued for information of shareholders. It is not authorized for distribution to prospective investors unless preceded or accompanied by a currently effective prospectus of the Fund (obtainable from the Distributor).

#539720

ANNUAL REPORT

February 28, 2007

The Value Line Tax Exempt Fund, Inc.



To Our Value Line

To Our Shareholders:

For the twelve months ended February 28, 2007, the total return of the Value Line Tax Exempt Fund was 4.73%. Over the same time period, the Lehman Brothers Municipal Bond Index reported a return of 4.96%.⁽¹⁾

For the twelve months ended February 28, 2007, longer maturity municipal bonds have outperformed bonds in the short end of the yield curve. This was primarily due to strong demand from non-traditional tax-exempt buyers. Most of the interest in the tax-exempt market has come from hedge funds and Tender Option Bond (TOB) programs. These types of investors like to buy new issue municipal bonds in the longer portion of the yield curve. The demand from these buyers is the main reason that the municipal market has been able to perform so well despite the tremendous amount of new issue supply.

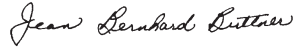
With interest rates remaining at relatively low levels, municipal bond funds continue to stretch for yield. Strong performance has come from the riskier sectors in the market, primarily non-investment grade securities and BBB-rated bonds. The Value Line Tax Exempt Fund does not invest in municipal bonds that are not rated investment grade. The Fund can purchase BBB-rated bonds and as of February 28, 2007 had less than one percent of its market value in these types of securities. As of February 28, 2007, the Lehman Brothers Municipal Bond Index reported five percent of its market value in BBB-rated securities.

In the investment grade category, industrial development and hospital bonds posted strong returns for the twelve-month period ended February 28, 2007. For the same time period, the Value Line Tax Exempt Fund had eight percent of its market value in industrial development securities and

almost five percent in hospital bonds. The Lehman Brothers Municipal Bond Index had approximately five percent of its market value in each of these sectors. Municipal bonds issued from the state of California also performed very well. The Fund had almost 20% of its market value in California exempt securities for the year ended February 28, 2007. For the same time period, the Lehman Brothers Municipal Bond Index had 16% of its aggregate index in California paper.

Going forward, the Fund is taking steps to increase its exposure to sectors, which are under-weighted relative to the Lehman Brothers Municipal Bond Index. Two sectors that the Fund does not have much exposure to are uninsured and long pre-refunded bonds. A concerted effort will be made to add to these sectors when market conditions allow it. Another total return trend taking place is the out-performance of larger blocks of bonds. The influence of hedge fund buyers has tremendously increased the value and liquidity of securities with a minimum block size of \$1 million. The Fund is currently restructuring its holdings into \$1 million bond pieces. Our goal remains to provide a maximum level of income exempt from all Federal income taxes with a minimum level of risk. Thank you for your investment with us.

Sincerely,


Jean Bernhard Buttner
Chairman and President

April 2, 2007

⁽¹⁾ *The Lehman Brothers Municipal Bond Index is a total-return performance benchmark for the long-term, investment-grade, tax-exempt bond market. The returns for the Index do not reflect charges, expenses, or taxes, and it is not possible to directly invest in this Index.*

Tax Exempt Fund Shareholders

Economic Observations

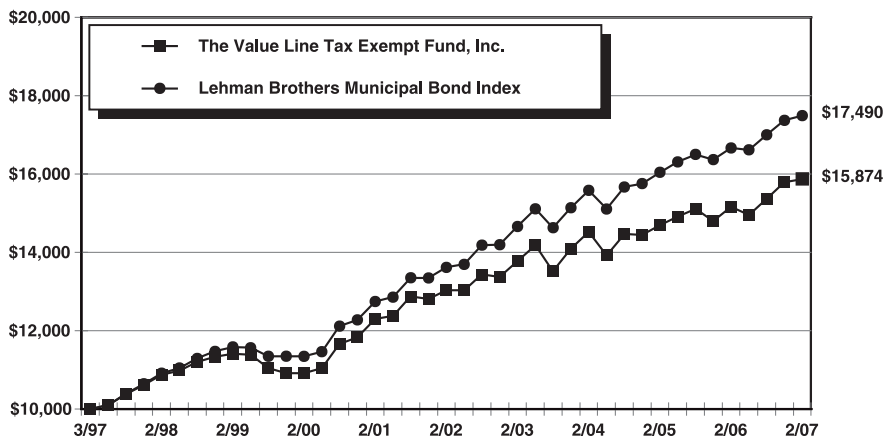
The economy slowed markedly during the course of 2006, with the nation's gross domestic product growth decelerating from 5.6% in the opening quarter to 2.5% by the final period. Spreading weakness in the housing market and stubbornly high oil prices combined to put growth on this more restrained pace. These depressants are still with us, meantime, suggesting that the first half of 2007 will see little aggregate change in GDP growth. What's more, we think the economy's rate of improvement will stay in a stable 2.0%–2.5% range during the second half of this year. Inflation, which has been under control for the past decade, should remain so again this year, even slowing a bit as the economy continues to proceed at a measured pace.

Meanwhile, we expect the Federal Reserve, which has held interest rates at current levels since last June, following two years in which it had raised them steadily, to stay on hold for several more months. Thereafter, we believe that the combination of slow economic growth and moderating inflation could prompt the Fed to start lowering rates. Such a downward course in borrowing costs should help to prevent a recession later this year. In fact, the combination of somewhat lower interest rates and a reviving housing market should then help to lift GDP growth up close to 3% in 2008.

Gross domestic product growth along these lines and accompanying subdued inflation should have positive ramifications for the stock and bond markets.

The following graph compares the performance of The Value Line Tax Exempt Fund, Inc. to that of the Lehman Brothers Municipal Bond Index. The Value Line Tax Exempt Fund, Inc. is a professionally managed mutual fund, while the Index is not available for investment and is unmanaged. The returns for the Index do not reflect charges, expenses or taxes but do include the reinvestment of dividends. The comparison is shown for illustrative purposes only.

Comparison of a Change in Value of a \$10,000 Investment
in The Value Line Tax Exempt Fund, Inc.
and the Lehman Brothers Municipal Bond Index*



* The Lehman Brothers Municipal Bond Index is representative of the broad based fixed income market. It includes long term investment grade tax exempt bonds. The returns for the Index do not reflect charges, expenses, or taxes, and it is not possible to directly invest in this unmanaged Index. The return for the Index does not reflect expenses which are deducted from the Fund's return.

PERFORMANCE DATA:**

	Average Annual Total Return	Growth of an Assumed Investment of \$10,000
1 year ended 2/28/07.....	4.73%	\$10,473
5 years ended 2/28/07	4.03%	\$12,184
10 years ended 2/28/07	4.73%	\$15,874

** The performance data quoted represent past performance and are no guarantee of future performance. The average annual total returns and growth of an assumed investment of \$10,000 include dividends reinvested and capital gains distributions accepted in shares. The investment return and principal value of an investment will fluctuate so that an investment, when redeemed, may be worth more or less than its original cost. The performance data and graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

FUND EXPENSES (unaudited):

Example

As a shareholder of the Fund, you incur ongoing costs, including management fees; distribution and service (12b-1) fees; and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period (September 1, 2006 through February 28, 2007).

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example an \$8,600 account value divided by \$1,000=8.6), then multiply the result by the number in the first line under the heading “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads), redemption fees, or exchange fees. Therefore, the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if transactional costs were included, your costs would have been higher.

	Beginning account value 9/1/06	Ending account value 2/28/07	Expenses* paid during period 9/1/06 thru 2/28/07
Actual	\$1,000.00	\$1,032.70	\$3.02
Hypothetical (5% return before expenses)	\$1,000.00	\$1,021.82	\$3.01

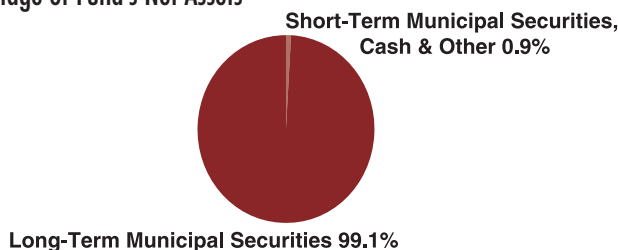
* Expenses are equal to the Fund’s annualized expense ratio of 0.60% multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half period. This expense ratio may differ from the expense ratio shown in the Financial Highlights.

Portfolio Highlights at February 28, 2007 (unaudited)

Ten Largest Long-Term Holdings

Issue	Principal Amount	Value	Percentage of Fund's Net Assets
Philadelphia Authority for Industrial Development, Revenue Bonds, Cultural and Commercial Corridors Program, Ser. A, FGIC Insured, 5.00%, 12/1/22	\$4,900,000	\$5,308,856	4.8%
Housing Development Authority, Revenue Bonds, Homeownership Mortgage, Ser. E, 4.50%, 11/1/26	\$5,000,000	\$4,999,700	4.6%
Lubbock, Housing Finance Corp., Single Family Mortgage Revenue Bonds, Refunding, Ser. A, GNMA Collateral, 8.00%, 10/1/21	\$2,700,000	\$3,896,100	3.6%
Chicago Public Building, Commerce Building Revenue Bonds, Refunding, Chicago Transit Authority, AMBAC Insured, 5.00%, 3/1/22	\$3,390,000	\$3,678,997	3.4%
Bi-State Development Agency, Illinois Metropolitan District Revenue Bonds, Refunding, St. Clair County Metrolink Project, FSA Insured, 5.25%, 7/1/27	\$3,185,000	\$3,658,164	3.3%
Natomas Unified School District, General Obligation Unlimited, Election of 2006, FGIC Insured, 4.50%, 8/1/29	\$3,500,000	\$3,556,350	3.2%
Ceres California Redevelopment Agency, Tax Allocation, Ceres Redevelopment Project Area No. 1, MBIA Insured, 5.00%, 11/1/33	\$3,200,000	\$3,430,560	3.1%
St. Johns County Transportation Improvement, Revenue Bonds, AMBAC Insured, 5.00%, 10/1/26	\$3,045,000	\$3,287,991	3.0%
Office Building Commission, Capital Complex, Revenue Bonds, Ser. B, MBIA Insured, 7.40%, 7/1/15	\$2,575,000	\$3,165,319	2.9%
Grayson County, General Obligation Limited, Pass Through Toll, FSA Insured, 4.38%, 1/1/25	\$3,130,000	\$3,161,957	2.9%

Asset Allocation — Percentage of Fund's Net Assets



Quality Diversification — Credit Quality expressed as a Percentage of Fund's Net Assets as of 2/28/07

Aaa	91.4%
Aa1	4.8%
Aa2	0.1%
Aa3	2.3%
Baa3	0.5%
Short-Term Investments	5.2%
Total Investments	104.3%
Liabilities in excess of other assets	(4.3%)
Total Net Assets	100.0%

Source: Moody's ratings, defaulting to S&P when not rated.

Credit Quality is subject to change.

Schedule of Investments

February 28, 2007

Principal Amount		Rating (unaudited)	Value
LONG-TERM MUNICIPAL SECURITIES (99.1%)			
ALASKA (1.0%)			
\$1,000,000	Housing Finance Corp., General Housing, Revenue Bonds, Ser. A, FGIC Insured, 5.00%, 12/1/26	Aaa	<u>\$ 1,058,550</u>
CALIFORNIA (17.3%)			
1,345,000	California Infrastructure and Economic Development Bank, Revenue Bonds, Refunding, Salvation Army Western Project, AMBAC Insured, 5.00%, 9/1/23	Aaa	1,457,146
2,195,000	California State Public Works Board, Lease Revenue Bonds, Ser. A, 4.63%, 4/1/24	Aaa	2,269,850
3,200,000	Ceres California Redevelopment Agency, Tax Allocation, Ceres Redevelopment Project Area No. 1, MBIA Insured, 5.00%, 11/1/33	Aaa	3,430,560
1,980,000	Inglewood Unified School District, School Facilities Financing Authority, Revenue Bonds, FSA Insured, 5.25%, 10/15/21	Aaa	2,266,249
3,500,000	Natomas Unified School District, General Obligation Unlimited, Election of 2006, FGIC Insured, 4.50%, 8/1/29	Aaa	3,556,350
2,555,000	Palomar Pomerado Health, General Obligation Unlimited, Election of 2004, Ser. A, AMBAC Insured, 5.00%, 8/1/34	Aaa	2,721,841
	Sacramento City Financing Authority, Revenue Bonds, Capital Improvements, 300 Richards Boulevard, Ser. C, AMBAC Insured:		
70,000	5.00%, 12/1/22	Aaa	75,841
970,000	5.00%, 12/1/23	Aaa	1,049,307
955,000	5.00%, 12/1/24	Aaa	1,030,674
1,000,000	San Diego County, Certificates of Participation, Refunding, Edgemoor Project and Regulation Systems, AMBAC Insured, 5.00%, 2/1/26	Aaa	<u>1,062,430</u>
			<u>18,920,248</u>
FLORIDA (7.0%)			
2,785,000	Brevard County, General Obligation Limited, Limited Tax, South Brevard Recreational Project, AMBAC Insured, 4.13%, 7/1/20	Aaa	2,805,303
500,000	Hillsborough County School District Sales Tax, Revenue Bonds, Refunding, AMBAC Insured, 5.00%, 10/1/20	Aaa	539,430
1,000,000	Polk County Florida Public Facilities, Revenue Bonds, MBIA Insured, 5.00%, 12/1/21	Aaa	1,079,350
3,045,000	St. Johns County Transportation Improvement, Revenue Bonds, AMBAC Insured, 5.00%, 10/1/26	Aaa	<u>3,287,991</u>
			<u>7,712,074</u>
GEORGIA (3.8%)			
1,575,000	Atlanta Georgia Development Authority, Revenue Bonds, Refunding, Tuff Yamacraw LLC Project, Ser. A, AMBAC Insured, 5.00%, 1/1/20	Aaa	1,700,984
2,325,000	Fulton County Georgia Development Authority Revenue Bonds, Spelman College, 5.00%, 6/1/25 ⁽¹⁾	Aa3	<u>2,510,791</u>
			<u>4,211,775</u>

See Notes to Financial Statements.

Schedule of Investments

Principal Amount		Rating (unaudited)	Value
ILLINOIS (5.5%)			
\$3,390,000	Chicago Public Building, Commerce Building Revenue Bonds, Refunding, Chicago Transit Authority, AMBAC Insured, 5.00%, 3/1/22	Aaa	\$3,678,997
2,000,000	Cook County General Obligation Unlimited, Ser. A, MBIA Insured, 6.25%, 11/15/13.....	Aaa	<u>2,294,200</u>
			<u>5,973,197</u>
INDIANA (2.9%)			
2,575,000	Office Building Commission, Capital Complex, Revenue Bonds, Ser. B, MBIA Insured, 7.40%, 7/1/15	Aaa	<u>3,165,319</u>
IOWA (2.4%)			
2,660,000	Des Moines Water Revenue Bonds, MBIA Insured, 4.13%, 12/1/23	Aaa	<u>2,665,985</u>
LOUISIANA (3.5%)			
1,200,000	Louisiana Housing Finance Agency, Single Family Mortgage Revenue Bonds, Home Ownership, Zone A-1, GNMA/FNMA/FHLMC Collateral, 4.65%, 12/1/33 ⁽¹⁾	Aaa	1,212,120
2,420,000	St. Tammany Parish Sales Tax District No. 3, Revenue Bonds, CIFG Insured, 5.00%, 6/1/24	AAA*	<u>2,616,480</u>
			<u>3,828,600</u>
MICHIGAN (0.2%)			
215,000	State Building Authority, State Police Commission System, Revenue Bonds, MBIA Insured, 4.65%, 10/1/19	Aaa	<u>225,544</u>
MISSOURI (5.4%)			
3,185,000	Bi-State Development Agency, Illinois Metropolitan District Revenue Bonds, Refunding, St. Clair County Metrolink Project, FSA Insured, 5.25%, 7/1/27	Aaa	3,658,164
2,060,000	St. Louis Parking, Revenue Bonds, Refunding, Ser. A, MBIA Insured, 5.00%, 12/15/20	Aaa	<u>2,232,463</u>
			<u>5,890,627</u>
NEVADA (1.9%)			
2,030,000	Clark County Nevada Industrial Development Revenue Bonds, Southwest Gas Corporation Project, Ser. A, AMBAC Insured, 4.85%, 10/1/35	Aaa	<u>2,079,796</u>
NEW JERSEY (2.7%)			
2,900,000	New Jersey Environmental Infrastructure Trust, Revenue Bonds, Ser. A, 4.25%, 9/1/23	Aaa	<u>2,941,383</u>
NEW YORK (3.0%)			
500,000	Dormitory Authority, Note Revenue Bonds, FHA Insured Mortgage, Montefiore Hospital, FGIC Insured, 5.00%, 2/1/13	Aaa	534,010
2,500,000	Long Island Power Authority, Electric Systems Revenue Bonds, Gen. Ser. E, FGIC Insured, 5.00%, 12/1/22	Aaa	<u>2,712,825</u>
			<u>3,246,835</u>

See Notes to Financial Statements.

February 28, 2007

Principal Amount		Rating (unaudited)	Value
NORTH DAKOTA (1.0%)			
\$1,000,000	State Water Commission Revenue, Water Development & Management Program, Ser. B, MBIA Insured, 5.00%, 8/1/25	Aaa	<u>\$1,073,120</u>
OHIO (0.1%)			
115,000	Housing and Community Service Department, Single-Family Revenue Bonds, Ser. A-2, 5.50%, 9/1/22	Aaa	<u>120,262</u>
PENNSYLVANIA (6.8%)			
4,900,000	Philadelphia Authority for Industrial Development, Revenue Bonds, Cultural and Commercial Corridors Program, Ser. A, FGIC Insured, 5.00%, 12/1/22	Aaa	5,308,856
2,000,000	Public School Building Authority, Lease Revenue Bonds, Philadelphia School District Project, Ser. B, FSA State Aid Withholding, 5.00%, 6/1/24	Aaa	<u>2,161,840</u>
			<u>7,470,696</u>
SOUTH CAROLINA (2.5%)			
1,775,000	State Highway, General Obligation Unlimited, Ser. A, 3.00%, 8/1/20	Aaa	1,578,312
1,135,000	State Housing Finance and Development Authority, Mortgage Revenue Bonds, AMT, Ser. A-2, FSA Insured, 5.00%, 7/1/20	Aaa	<u>1,175,826</u>
			<u>2,754,138</u>
SOUTH DAKOTA (7.3%)			
2,580,000	Heartland Consumers Power Distribution, Electric Utility, FSA Insured, 6.00%, 1/1/17	Aaa	2,964,833
5,000,000	Housing Development Authority, Revenue Bonds, Homeownership Mortgage, Ser. E, 4.50%, 11/1/26	Aa1	<u>4,999,700</u>
			<u>7,964,533</u>
TENNESSEE (0.1%)			
90,000	Housing Development Agency Homeownership, Revenue Bonds, General Obligation, 5.00%, 7/1/17	Aa2	<u>91,102</u>
TEXAS (21.7%)			
2,000,000	Dallas Texas Area Rapid Transit Sales Tax Revenue Bonds, Refunding, Senior Lien, AMBAC Insured, 4.50%, 12/1/25 ⁽¹⁾	Aaa	2,044,300
3,130,000	Grayson County, General Obligation Limited, Pass Through Toll, FSA Insured, 4.38%, 1/1/25	Aaa	3,161,957
	Houston Texas Community College Systems Public Facility Corp., Lease Revenue Bonds, Northline Mall Campus Project, AMBAC Insured:		
1,000,000	5.00%, 4/15/17	Aaa	1,095,140
2,215,000	5.00%, 4/15/18	Aaa	2,420,486
500,000	5.00%, 4/15/20	Aaa	543,895
845,000	Houston Texas Community College Systems Public Facility Corp., Lease Revenue Bonds, Public Safety Institute Project, Ser. C, AMBAC Insured, 4.38%, 4/15/21 ..	Aaa	859,137

See Notes to Financial Statements.

Schedule of Investments

Principal Amount		Rating (unaudited)	Value
\$2,700,000	Lubbock, Housing Finance Corp., Single Family Mortgage Revenue Bonds, Refunding, Ser. A, GNMA Collateral, 8.00%, 10/1/21	AAA*	\$ 3,896,100
1,035,000	Mansfield Independent School District, School Building, General Obligation Unlimited, PSF Guaranteed, 5.00%, 2/15/20	Aaa	1,096,738
	Mission Consolidated Independent School District, General Obligation Unlimited, Refunding, PSF Guaranteed:		
2,000,000	5.00%, 2/15/28	Aaa	2,122,620
1,500,000	5.00%, 2/15/30	Aaa	1,588,815
1,600,000	North Forest Independent School District, General Obligation Unlimited, Schoolhouse, Refunding, PSF Guaranteed, 5.00%, 8/15/21	Aaa	1,731,568
500,000	Nueces River Authority, Water Supply Revenue Bonds, Corpus Christi Project, FSA Insured, 5.00%, 7/15/25	Aaa	534,180
1,250,000	San Patricio County, Certificates of Obligation, General Obligation Limited, AMBAC Insured, 4.75%, 4/1/36	Aaa	1,290,962
270,000	State Public Finance Authority, General Obligation Unlimited, Refunding, Ser. B, 5.00%, 10/1/18	Aa1	293,636
1,000,000	Texas Tech University, Revenue Bonds, Refunding and Improvement, AMBAC Insured, 5.00%, 2/15/27	Aaa	1,070,030
			<u>23,749,564</u>
	UTAH (1.7%)		
1,890,000	West Valley City Utah Municipal Building Authority, Lease Revenue Bonds, Refunding, Ser. A, FGIC Insured, 4.38%, 8/1/26	Aaa	<u>1,909,599</u>
	VIRGINIA (0.5%)		
500,000	Tobacco Settlement Financing Corporation, Revenue Bonds, Asset-Backed, 5.25%, 6/1/19	Baa3	<u>524,890</u>
	WEST VIRGINIA (0.8%)		
820,000	West Virginia State Hospital Finance Authority, Hospital Revenue Bonds, United Hospital Center, Inc. Project, Ser. A, AMBAC Insured, 5.00%, 6/1/22	Aaa	<u>880,910</u>
	TOTAL LONG-TERM MUNICIPAL SECURITIES		
	(Cost \$105,524,631)		<u>108,458,747</u>

See Notes to Financial Statements.

February 28, 2007

Principal Amount		Rating (unaudited)	Value
SHORT-TERM MUNICIPAL SECURITIES (5.2%)			
FLORIDA (3.8%)			
\$4,200,000	Jacksonville Pollution Control, Revenue Bonds, Refunding, 3.71%, 3/1/07 ⁽²⁾	VMIG1	<u>\$ 4,200,000</u>
WYOMING (1.4%)			
1,500,000	Lincoln County Wyoming Pollution Control, Revenue Bonds, Exxon Project, 3.61%, 3/1/07 ⁽²⁾	P-1	<u>1,500,000</u>
TOTAL SHORT-TERM MUNICIPAL SECURITIES			<u>5,700,000</u>
(Cost \$5,700,000)			
TOTAL MUNICIPAL SECURITIES (104.3%)			<u>114,158,747</u>
(Cost \$111,224,631)			
EXCESS OF LIABILITIES OVER CASH AND OTHER ASSETS (-4.3%)			<u>(4,655,960)</u>
NET ASSETS (100.0%)			<u>\$109,502,787</u>
NET ASSET VALUE OFFERING AND REDEMPTION PRICE, PER OUTSTANDING SHARE (\$109,502,787 ÷ 10,369,113 shares outstanding) ...			<u>\$ 10.56</u>

* Rated by Moody's Investors Service except for those marked by an asterisk (*) which are rated by Standard & Poor's.

(1) When-issued security.

(2) Variable rate demand notes are considered short-term obligations. Interest rates change on reset date. These securities are payable on demand on interest rate reset dates and are secured by either letters of credit or other credit support agreements from banks. The rates listed are as of February 28, 2007.

See Notes to Financial Statements.

Statement of Assets and Liabilities
at February 28, 2007

Statement of Operations
for the Year Ended February 28, 2007

Assets:	
Investment securities, at value (Cost — \$111,224,631).....	\$114,158,747
Cash.....	3,978,471
Receivable for securities sold	3,985,464
Interest receivable	1,024,047
Receivable for capital shares sold.....	22,930
Prepaid expenses.....	6,176
Total Assets	<u>123,175,835</u>
Liabilities:	
Payable for securities purchased.....	13,374,036
Dividends payable to shareholders	105,951
Payable for capital shares repurchased	43,021
Accrued expenses:	
Advisory fee	43,038
Directors' fees and expenses.....	3,722
Other	103,280
Total Liabilities	<u>13,673,048</u>
Net Assets	<u>\$109,502,787</u>
Net assets consist of:	
Capital stock, at \$0.01 par value (authorized 65,000,000 shares; outstanding 10,369,113 shares)	\$ 103,691
Additional paid-in capital.....	105,970,307
Distributions in excess of net investment income	(23,142)
Accumulated net realized gain on investments.....	517,815
Net unrealized appreciation of investments	2,934,116
Net Assets	<u>\$109,502,787</u>
Net Asset Value, Offering and Redemption Price, per Outstanding Share (\$109,502,787 ÷ 10,369,113 shares outstanding)	
	<u>\$ 10.56</u>

Investment Income:	
Interest	<u>\$4,966,306</u>
Expenses:	
Advisory fee	557,318
Service and distribution plan fees	278,659
Registration and filing fees	48,040
Custodian fees	32,415
Transfer agent fees.....	31,803
Printing and postage	31,002
Auditing and legal fees	17,600
Directors' fees and expenses.....	7,745
Insurance.....	6,800
Telephone	4,299
Other	22,628
Total Expenses Before Custody Credits and Fees Waived	<u>1,038,309</u>
Less: Service and Distribution Plan Fees Waived.....	<u>(278,659)</u>
Less: Custody Credits.....	<u>(17,320)</u>
Net Expenses.....	<u>742,330</u>
Net Investment Income	<u>4,223,976</u>
Net Realized and Unrealized Gain/(Loss) on Investments:	
Net Realized Gain	744,743
Change in Net Unrealized Appreciation/(Depreciation)	105,402
Net Realized Gain and Change in Net Unrealized Appreciation/(Depreciation) on Investments	<u>850,145</u>
Net Increase in Net Assets from Operations.....	<u>\$5,074,121</u>

See Notes to Financial Statements.

Statement of Changes in Net Assets
for the Year Ended February 28, 2007 and for the Year Ended February 28, 2006

	Year Ended February 28, 2007	Year Ended February 28, 2006
Operations:		
Net investment income	\$ 4,223,976	\$ 4,274,143
Net realized gain on investments.....	744,743	988,733
Change in net unrealized appreciation/(depreciation)	105,402	(1,456,864)
Net increase in net assets from operations	5,074,121	3,806,012
Distributions to Shareholders:		
Net investment income	(4,223,976)	(4,267,509)
Net realized gain from investment transactions	(909,947)	(720,888)
Total Distributions	(5,133,923)	(4,988,397)
Capital Share Transactions:		
Proceeds from sale of shares.....	2,218,574	3,024,212
Proceeds from reinvestment of distributions to shareholders.....	3,709,204	3,601,794
Cost of shares repurchased.....	(13,842,987)	(14,444,780)
Decrease from capital share transactions	(7,915,209)	(7,818,774)
Total Decrease in Net Assets	(7,975,011)	(9,001,159)
Net Assets:		
Beginning of year	117,477,798	126,478,957
End of year.....	\$109,502,787	\$117,477,798
Distributions in excess of net investment income, at end of year	\$ (23,142)	\$ (27,155)

See Notes to Financial Statements.

Notes to Financial Statements

1. Significant Accounting Policies

The Value Line Tax Exempt Fund, Inc. (the “Fund”) is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company, comprised of The National Bond Portfolio. The primary investment objective of the Fund is to provide investors with the maximum income exempt from federal income taxes while avoiding undue risk to principal by investing primarily in investment-grade municipal securities. The ability of the issuers of the securities held by the Fund to meet their obligations may be affected by economic or political developments in a specific state or region. The following significant accounting policies are in conformity with generally accepted accounting principles for investment companies. Such policies are consistently followed by the Fund in the preparation of its financial statements. Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

(A) Security Valuation: The investments are valued each business day at market value using prices supplied by an independent pricing service (the “Service”). Investments for which quoted bid prices are readily available and are representative of the bid side of the market are valued at quotations obtained by the Service from dealers in such securities. Other investments (which constitute a majority of the portfolio securities) are valued by the Service, based on methods that include consideration of yields or prices of municipal securities of comparable quality, coupon, maturity, and type; indications as to values from dealers; and general market conditions. Short-term instruments maturing within 60 days are valued at amortized cost, which approximates market value. Other assets and securities for which no quotations are readily available will be valued in good faith at their fair value using methods determined by the Board of Directors.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact the adoption of SFAS No. 157 will have on the Fund’s financial statement disclosures.

(B) Distributions: It is the policy of the Fund to declare dividends daily from net investment income. Dividends credited to a shareholder’s account are paid monthly. Income earned by the Fund on weekends, holidays, and other days on which the Fund is closed for business is declared as a dividend on the next day on which the Fund is open for business. The Fund expects to distribute any net realized capital gains at least annually.

The amount of dividends and distributions from net investment income and net realized gains is determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These “book/tax” differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment. Temporary differences do not require reclassification.

(C) Federal Income Taxes: It is the policy of the Fund to qualify as a regulated investment company by complying with the provisions available to regulated investment companies, as defined in applicable sections of the Internal Revenue Code, and to distribute all of its investment income and capital gains to its shareholders. Therefore, no provision for federal income tax is required.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, “Accounting for Uncertainty

February 28, 2007

in Income Taxes – an Interpretation of FASB Statement No. 109” (the “Interpretation”). The Interpretation establishes for all entities, including pass-through entities such as the Fund, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006, and is to be applied to all open tax years as of the date of effectiveness. Management has recently begun to evaluate the application of the Interpretation to the Fund, and is not in a position at this time to estimate the significance of its impact, if any, on the Fund’s financial statements.

(D) Security Transactions: Securities transactions are recorded on a trade date basis. Realized gains and losses from securities transactions are recorded on the identified cost basis. Interest income, adjusted for amortization of premium and accretion of discounts on investments, is earned from settlement date and recognized on the accrual basis. Securities purchased or sold on when-issued or delayed-delivery basis may be settled a month or more after the trade date.

(E) Representations and Indemnifications: In the normal course of business, the Fund enters into contracts that contain a variety of representations which provide general indemnifications. The Fund’s maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

2. Capital Share Transactions

Transactions in capital stock were as follows:

	Year Ended February 28, 2007	Year Ended February 28, 2006
Shares sold	213,756	284,210
Shares issued to shareholders in reinvestment of distributions ...	354,538	340,881
Shares repurchased	(1,328,645)	(1,361,209)
Net decrease	<u>(760,351)</u>	<u>(736,118)</u>
Dividends per share from net investment income	\$ 0.3971	\$ 0.3713
Dividends per share from net realized gains ..	<u>\$ 0.0870</u>	<u>\$ 0.0639</u>

3. Purchases and Sales of Securities

Purchases and sales of municipal securities, excluding short-term securities, were as follows:

	Year Ended February 28, 2007
Purchases:	
Long-term obligations	<u>\$312,728,439</u>
Maturities or Sales:	
Long-term obligations	<u>\$319,868,882</u>

Notes to Financial Statements

February 28, 2007

4. Income Taxes

At February 28, 2007, information on the tax components of capital is as follows:

Cost of investments for tax purposes ..	<u>\$111,283,929</u>
Gross tax unrealized appreciation	\$ 2,915,289
Gross tax unrealized depreciation	<u>(40,471)</u>
Net tax unrealized appreciation on investments	<u>\$ 2,874,818</u>
Undistributed income on municipal bonds	<u>\$ 82,809</u>
Undistributed ordinary income	<u>\$ 290,856</u>
Undistributed long-term capital gains	<u>\$ 286,257</u>

Net unrealized gain (loss) differs for financial statements and tax purposes primarily due to wash sales.

Permanent book-tax differences relating to the classification of income in the current year were reclassified within the composition of the net asset accounts. The Fund decreased distributions in excess of net investment income by \$4,013, and decreased accumulated net realized gain by \$4,013. Net assets were not affected by this reclassification. These reclasses were due to differing treatments of distribution reclassifications for tax purposes.

The tax composition of dividends to shareholders for the years ended February 28, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Municipal bond income....	\$4,217,363	\$4,265,370
Taxable ordinary income...	27,531	347,834
Long-term capital gains....	<u>889,029</u>	<u>375,193</u>
	<u>\$5,133,923</u>	<u>\$4,988,397</u>

5. Investment Advisory Fee, Service and Distribution Fees and Transactions With Affiliates

An advisory fee of \$557,318 was paid or payable to Value Line, Inc. (the "Adviser") for the year ended

February 28, 2007. This was computed at an annual rate of 0.50% of the Fund's average daily net assets. The Adviser provides research, investment programs, and supervision of the investment portfolio and pays costs of administrative services, office space, equipment, and compensation of administrative, bookkeeping, and clerical personnel necessary for managing the affairs of the Fund. The Adviser also provides persons, satisfactory to the Fund's Board of Directors, to act as officers of the Fund and pays their salaries and wages. Direct expenses of the Fund are charged to the Fund while common expenses of the Value Line Funds are allocated proportionally based upon the Funds' respective net assets. The Fund bears all other costs and expenses of its organization and operation.

The Fund has a Service and Distribution Plan (the "Plan"). The Plan, adopted pursuant to Rule 12b-1 under the Investment Company Act of 1940, compensates Value Line Securities, Inc., a subsidiary of the Adviser (the "Distributor"), for advertising, marketing and distributing the Fund's shares and for servicing the Fund's shareholders at an annual rate of 0.25% of the Fund's average daily net assets. Fees amounting to \$278,659 were accrued under this Plan for the year ended February 28, 2007. Effective February 10, 2006, the Distributor voluntarily waived this fee. The fees waived amounted to \$278,659. The Distributor has no right to recoup previously waived amounts.

For the year ended February 28, 2007, the Fund's expenses were reduced by \$17,320 under a custody credit arrangement with the custodian.

Certain officers and directors of the Adviser and/or affiliated companies are also officers and directors of the Fund. At February 28, 2007, the Adviser and/or affiliated companies owned 64,703 shares of the Fund representing less than 1% of the outstanding shares. In addition, certain officers and directors of the Fund as a group owned 131,663 shares, representing 1.27% of the outstanding shares.

Financial Highlights

Selected data for a share of capital stock outstanding throughout each year:

	National Bond Portfolio				
	Years Ended on Last Day of February				
	2007	2006	2005	2004	2003
Net asset value, beginning of year	\$ 10.56	\$ 10.66	\$ 11.03	\$ 10.84	\$ 10.68
Income from investment operations:					
Net investment income	0.40	0.37	0.37	0.38	0.42
Net gains or (losses) on securities (both realized and unrealized)	0.09	(0.04)	(0.26)	0.19	0.18
Total from investment operations	0.49	0.33	0.11	0.57	0.60
Less distributions:					
Dividends from net investment income	(0.40)	(0.37)	(0.37)	(0.38)	(0.42)
Distributions from net realized gains	(0.09)	(0.06)	(0.11)	— ⁽³⁾	(0.02)
Total distributions	(0.49)	(0.43)	(0.48)	(0.38)	(0.44)
Net asset value, end of year	\$ 10.56	\$ 10.56	\$ 10.66	\$ 11.03	\$ 10.84
Total return	4.73%	3.22%	1.14%	5.36%	5.76%
Ratios/Supplemental Data:					
Net assets, end of year (in thousands)	\$109,503	\$117,478	\$126,479	\$149,640	\$165,175
Ratio of expenses to average net assets ⁽¹⁾ ..	0.93% ⁽²⁾	0.97% ⁽²⁾	0.97%	0.94%	0.91%
Ratio of net investment income to average net assets	3.79%	3.51%	3.48%	3.50%	4.00%
Portfolio turnover rate	283%	149%	93%	166%	134%

⁽¹⁾ Ratio reflects expenses grossed up for custody credit arrangement. The ratio of expenses to average net assets net of custody credits would have been 0.92%, 0.96%, 0.97%, 0.94%, and 0.90%, respectively, for the years ended February 28, 2007, February 28, 2006, February 28, 2005, February 29, 2004 and February 28, 2003.

⁽²⁾ Ratio reflects expenses grossed up for the voluntary waiver of the service and distribution plan fees by the Distributor. The ratio of expenses to average net assets net of the voluntary fee waiver, but exclusive of the custody credit arrangement, would have been 0.68% for the year ended February 28, 2007 and 0.96% for the year ended February 28, 2006.

⁽³⁾ Represents \$0.0005.

See Notes to Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of The Value Line Tax Exempt Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The National Bond Portfolio (constituting the portfolio of The Value Line Tax Exempt Fund, Inc., hereinafter referred to as the “Fund”) at February 28, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial state-

ments in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at February 28, 2007 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York

April 26, 2007

Federal Tax Notice (unaudited)

During the year ended February 28, 2007, the Fund paid dividends to shareholders of \$0.3971 per share from net investment income. Substantially all of the Fund's dividends from net investment income were exempt-interest dividends and are 100% free of Federal income tax. However, state and local taxes differ from state to state and a portion of the dividends may be subject to the individual Alternative Minimum Tax, so it is suggested that you consult your own tax adviser with respect to those taxes.

During the year ended February 28, 2007, the Fund paid \$0.0870 per share of long-term capital gains to shareholders.

Management of the Fund

MANAGEMENT INFORMATION

The business and affairs of the Fund are managed by the Fund's officers under the direction of the Board of Directors. The following table sets forth information on each Director and officer of the Fund. Each Director serves as a director or trustee of each of the 14 Value Line Funds. Each Director serves until his or her successor is elected and qualified.

Name, Address, and Age	Position	Length of Time Served	Principal Occupation During the Past 5 Years	Other Directorships Held by Director
Interested Director*				
Jean Bernhard Buttner Age 72	Chairman of the Board of Directors and President	Since 1984	Chairman, President and Chief Executive Officer of Value Line, Inc. (the "Adviser") and Value Line Publishing, Inc. Chairman and President of each of the 14 Value Line Funds and Value Line Securities, Inc. (the "Distributor").	Value Line, Inc.
Non-Interested Directors				
John W. Chandler 416 North Hemlock Lane Williamstown, MA 01267 Age 83	Director	Since 1991	Consultant, Academic Search Consultation Service, Inc. 1992–2004; Trustee Emeritus and Chairman (1993–1994) of the Board of Trustees of Duke University; President Emeritus, Williams College.	None
Frances T. Newton 4921 Buckingham Drive Charlotte, NC 28209 Age 65	Director	Since 2000	Customer Support Analyst, Duke Power Company.	None
Francis C. Oakley 54 Scott Hill Road Williamstown, MA 01267 Age 75	Director	Since 2000	Professor of History, Williams College, 1961–2002. Professor Emeritus since 2002; President Emeritus since 1994 and President, 1985–1994; Chairman (1993–1997) and Interim President (2002–2003) of the American Council of Learned Societies. Trustee since 1997 and Chairman of the Board since 2005, National Humanities Center.	None
David H. Porter 5 Birch Run Drive Saratoga Springs, NY 12866 Age 71	Director	Since 1997	Visiting Professor of Classics, Williams College, since 1999; President Emeritus, Skidmore College since 1999 and President, 1987–1998.	None
Paul Craig Roberts 169 Pompano St. Panama City Beach, FL 32413 Age 68	Director	Since 1984	Chairman, Institute for Political Economy.	None

Management of the Fund

Name, Address, and Age	Position	Length of Time Served	Principal Occupation During the Past 5 Years	Other Directorships Held by Director
Nancy-Beth Sheerr 1409 Beaumont Drive Gladwyne, PA 19035 Age 58	Director	Since 1996	Senior Financial Advisor, Veritable L.P. (investment adviser) since 2004; Senior Financial Advisor, Hawthorn 2001–2004.	None
Officers				
David T. Henigson Age 49	Vice President, Secretary and Chief Compliance Officer	Since 1994	Director, Vice President and Compliance Officer of the Adviser. Director and Vice President of the Distributor. Vice President, Secretary and Chief Compliance Officer of each of the 14 Value Line Funds.	
Stephen R. Anastasio Age 47	Treasurer	Since 2005	Controller of the Adviser until 2003; Chief Financial Officer of the Adviser 2003–2005; Treasurer of the Adviser since 2005; Treasurer of each of the 14 Value Line Funds.	
Howard A. Brecher Age 53	Assistant Treasurer, Assistant Secretary	Since 2005	Director, Vice President and Secretary of the Adviser. Director and Vice President of the Distributor.	

* *Mrs. Buttner is an “interested person” as defined in the Investment Company Act of 1940 by virtue of her positions with the Adviser and her indirect ownership of a controlling interest in the Adviser.*

Unless otherwise indicated, the address for each of the above is 220 East 42nd Street, New York, NY 10017.

The Fund’s Statement of Additional Information (SAI) includes additional information about the Fund’s directors and is available, without charge, upon request by calling 1-800-243-2729.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (“SEC”) for the first and third quarters of each fiscal year on Form N-Q. The Fund’s Forms N-Q are available on the SEC’s website at <http://www.sec.gov> and may be reviewed and copied at the SEC’s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, and information regarding how the Fund voted these proxies for the 12-month period ended June 30 is available through the Fund’s website at <http://www.vlfunds.com> and on the SEC’s website at <http://www.sec.gov>. The description of the policies and procedures is also available without charge, upon request, by calling 1-800-243-2729.

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The Value Line Family of Funds

1950 — *The Value Line Fund* seeks long-term growth of capital. Current income is a secondary objective.

1952 — *Value Line Income and Growth Fund's* primary investment objective is income, as high and dependable as is consistent with reasonable risk. Capital growth to increase total return is a secondary objective.

1956 — *Value Line Premier Growth Fund* seeks long-term growth of capital. No consideration is given to current income in the choice of investments.

1972 — *Value Line Larger Companies Fund's* sole investment objective is to realize capital growth.

1979 — *The Value Line Cash Fund*, a money market fund, seeks to secure as high a level of current income as is consistent with maintaining liquidity and preserving capital. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

1981 — *Value Line U.S. Government Securities Fund* seeks maximum income without undue risk to capital. Under normal conditions, at least 80% of the value of its net assets will be invested in securities issued or guaranteed by the U.S. Government and its agencies and instrumentalities.

1983 — *Value Line Centurion Fund** seeks long-term growth of capital.

1984 — *The Value Line Tax Exempt Fund* seeks to provide investors with the maximum income exempt from

federal income taxes while avoiding undue risk to principal. The fund may be subject to state and local taxes and the Alternative Minimum Tax (if applicable).

1985 — *Value Line Convertible Fund* seeks high current income together with capital appreciation primarily from convertible securities ranked 1 or 2 for year-ahead performance by the Value Line Convertible Ranking System.

1986 — *Value Line Aggressive Income Trust* seeks to maximize current income.

1987 — *Value Line New York Tax Exempt Trust* seeks to provide New York taxpayers with the maximum income exempt from New York State, New York City and federal income taxes while avoiding undue risk to principal. The Trust may be subject to state and local taxes and the Alternative Minimum Tax (if applicable).

1987 — *Value Line Strategic Asset Management Trust** seeks to achieve a high total investment return consistent with reasonable risk.

1993 — *Value Line Emerging Opportunities Fund* invests primarily in common stocks or securities convertible into common stock, with its primary objective being long-term growth of capital.

1993 — *Value Line Asset Allocation Fund* seeks high total investment return, consistent with reasonable risk. The Fund invests in stocks, bonds and money market instruments utilizing quantitative modeling to determine the asset mix.

* Only available through the purchase of *Guardian Investor*, a tax deferred variable annuity, or *ValuePlus*, a variable life insurance policy.

For more complete information about any of the Value Line Funds, including charges and expenses, send for a prospectus from Value Line Securities, Inc., 220 East 42nd Street, New York, New York 10017-5891 or call 1-800-243-2729, 9am – 5pm CST, Monday – Friday, or visit us at www.valueline.com. Read the prospectus carefully before you invest or send money.