

Kansas Rehabilitation Tax Credit Program (KSA 79-32,211) Examples of Qualifying and Non-Qualifying Expenditures

This document provides a general list of qualifying and non-qualifying expenditures with regards to the Kansas Rehabilitation Tax Credit Program. It is meant to help provide some basic guidance as to what expenditures do and do not qualify when working with the Kansas Rehabilitation Tax Credit Program. This document provides guidance on common project components but does not cover all expenses or situations. **This list is not absolute. Every factual situation will be reviewed on its own merit.**

A State of Kansas income, privilege, or premiums tax credit is allowed for approved expenditures incurred in the rehabilitation and preservation of a qualified historic structure. All project work must meet the Secretary of the Interior's *Standard for Rehabilitation* and be pre-approved through the application process by the State Historic Preservation Office (SHPO). A "Certified Historic Structure" is defined by section 47 (c) (3) of the Federal Internal Revenue Code (IRC 47) and includes any building and its structural components. Buildings must be older than 50 years. Ancillary buildings can qualify as well if they are older than 50 years and the National Register deems them contributing. IRC 47 further defines "qualified rehabilitation expenditures" as any amounts properly chargeable to capital accounts for which depreciation is allowed under section 168 and which has a class life of 12.5 years or more (1250 property, not 1245 property). Qualified rehabilitation expenditures do not include Section 38 property. Section 38 property is tangible personal property with an estimated useful life of 3 years or more for depreciation purposes. Tangible personal property is anything that is not a permanent component of a building (26 C.F.R. 1.48-1). The SHPO, as the administrative entity, reviews and approves the rehabilitation work for compliance with the Secretary of the Interior's *Standards for Rehabilitation*. Upon completion of the rehabilitation project, the SHPO submits the project schedules, invoices and supporting documents to the Kansas Department of Revenue for a review that verifies the qualifying expenditures that can be claimed as the tax credit by the qualified property owner.

Kansas statutes and regulations establishing this program require that qualified expenditures be incurred and paid by a qualified taxpayer in the restoration and preservation of a qualified historic structure pursuant to a qualified rehabilitation plan. **Please note that ALL prospective qualified rehabilitation expenditures must be identified in the rehabilitation plan submitted, in writing, to the State Historic Preservation Office as part of the Part 2 Application or a subsequent Amendment.** Once there is an open project on file with the SHPO, any changes or additional work must be submitted for approval to the SHPO office via an amendment form before those changes are undertaken. All work submitted for rehabilitation must occur within the submitted project dates.

These guidelines apply only to the Kansas Rehabilitation Tax Credit Program. If a property owner is seeking Federal Rehabilitation Tax Credits, those expenses may be reviewed by the IRS and would be subject to IRS guidelines.

This document is intended to only provide information regarding what historic rehabilitation expenditures are considered qualified vs. non-qualified for tax credits. It is not intended to provide guidance on what rehabilitation work would be appropriate to undertake for each historic property and/or what would be in alignment with the Secretary of the Interior's *Standards for Rehabilitation*. **Finally, the rehabilitation plan may require work that will not qualify for historic tax credits.**

For more detailed information regarding historic rehabilitation tax credit programs, please visit the website <http://www.kshs.org/14673>. Information regarding state and federal rehabilitation tax credit programs, program applications, and contact information can all be found on the website above, or you can contact the State Historic Preservation Office at:

Kansas State Historic Preservation Office
Cultural Resources Division
785-272-8681 ext. 240
kshs.shpo@ks.gov

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Examples of Qualifying and Non-Qualifying Expenditures

Examples of Qualified Expenditures:

- Exterior Building Surfaces
- Masonry
- Insulation
- Foundations
- Roofs and Guttering
- Fire Escapes (if repairing, not full replacement)
- Windows and Storm Windows
- Doors and Storm Doors
- Chimneys
- Painting on Structural Surfaces
- Walls (removable wallpaper and moveable walls are ineligible)
- Ceilings (decorative molding and acoustic ceilings are ineligible)
- Floors (floating floors to protect the original flooring are ineligible)
- Carpeting (if glued down and excluding carpet tiles)
- Tile (grouted, cemented, mudded or epoxy)
- Paneling (if permanent; tacked on paneling is not permanent)
- Theater Seating (permanently attached specifically for theater use)
- Stairs
- Escalators and Elevators (if contained within the historic structure and permanent; chair lifts typically do not count unless they are deemed structural components)
- Lighting and Fixtures
- Electrical Wiring
- Data and Communication Wiring (not including routers, switches, servers, and other similar items)
- HVAC Systems and Components (units are eligible regardless of where they are located and this can include geothermal; systems must not be for support of other equipment, examples of this would be units solely for computer servers or food preparation)
- Plumbing and Fixtures (only the systems within the building are eligible)
- Fire Suppression Sprinkler Systems (room-specific systems are ineligible)

Examples of Non-Qualified Expenditures:

- Landscaping
- Planters
- Parking Lots
- Sidewalks
- Storm Sewers including French drains
- Paving and Driveways
- Retaining Walls and Curbs
- Fencing (construction interim is allowed)
- New Construction or Enlargement Costs (increasing the volume of the building is not an eligible cost)
- Moving a building to a new location
- Demolition Costs (removal of a building or addition on property site)
- New Porches (if not original to the building)
- Enclosure of Decks/Porches making them interior rooms
- Seating (includes attached seating such as booths, pews, or benches)
- Porticos and Decks (if not original to the building)
- Millwork (exterior millwork that is original to the building can be a qualified cost; interior millwork is typically not a qualified cost but might have to be replaced as part of the rehabilitation plan)
- Furniture
- Outdoor Lighting (if remote from the building; must be attached to the structure to be considered as a qualified cost)
- Awnings and Canopies (if they can be removed and put back on the structure, they are not qualified costs)
- Signage
- Window Treatments (curtains, blinds, shutters)
- Appliances and Appliance Hookups including wiring, gas, venting, and plumbing
- Carpeting (if tacked down or less permanent)

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Examples of Qualifying and Non-Qualifying Expenditures

Examples of Qualified Expenditures:

- Kitchen and bathroom cabinets and countertops (at the discretion of the Secretary of Revenue)
- Historic tax credit fees

Examples of Non-Qualified Expenditures:

- Less permanent floor covering (VCT, Vinyl, etc.)
- Acquisition Costs
- Projects that involve only soft costs (must be physical rehabilitation)
- Feasibility Studies (as a project)
- Any costs paid with insurance proceeds or grants
- Late fees
- Finance (including bond financing) and legal fees not pertaining to structural rehabilitation costs

There are “soft costs” which also qualify when included in a project. These include construction period interest and taxes, architect fees, engineering fees, construction management costs, reasonable developer fees, and any other fees that would normally be charged to a capital account. These “soft costs” are only allowed to the extent that they are applied to the historic structural components. Any fees that are attributable to any item other than the historic structure are not allowable. **This list is not absolute and every factual situation will be reviewed on its own merit.**

If you are unsure about the eligibility of a rehabilitation project item and would like clarification, please contact the Kansas Dept. of Revenue:

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