

Lottery Bond Program Quick Reference
Tax Exempt Bonds
Real or Personal Property
Allowable vs Un-allowable Costs

Allowable Capitalizable Costs: must be properly chargeable to the capital account of *the bond-financed project* (or would be properly chargeable with a proper election).

- **Acquisition Costs:** 1.263(a)-2(d)
 - **Leasehold Improvements**
 - **Land and Land Improvements**
 - **Buildings**
 - **Machinery and Equipment**
 - **Furniture and Fixtures**
 - **Transaction Costs:** 1.263(a)-2(f) (i.e., amounts paid to acquire the property):
 - Transportation costs
 - Appraisal fees
 - Application fees, bidding costs, or similar expenses
 - Titling & Permitting costs
 - Sales and transfer taxes and fees
 - Architectural, geological, survey, engineering, environmental, legal, or inspection services pertaining to the project
 - Employee Compensation and overhead costs incurred to help facilitate the acquisition of the property
 - Costs for work on the acquired property prior to the date that the property is placed in service
- **Construction Costs** (including improvement and rehabilitation): 1.263A-2(a)(1)(i)
 - **Direct Costs:** 1.263A-1(e)(2)
 - Direct material costs
 - Direct labor costs (including full-time and part-time employees, contract employees and independent contractors)

Please note this is not an all-inclusive list. The information in this document is to be used as a general overview of costs that can or cannot be paid for with Bond Proceeds. Each project is different, so please ask if you have items not listed here.

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Un-allowable Costs:

- **Certain Acquisition-Related Costs:** 1.263(a)-2(f)(2)(iii)(A)
 - Costs paid during the process of determining whether to purchase property and which property to purchase. (i.e., costs incurred prior to the final property being determined)
- **Certain Construction-Related Costs:** 1.263A-1(e)(3)(iii)
 - Research and Experimental Expenditures
 - Taxes Assessed on the Basis of Income:
 - State, local, and foreign income taxes
 - Franchise taxes that are assessed based on income
 - Strike Expenses
 - Warranty and Product Liability Costs
 - Unsuccessful Bidding Expenses
 - Deductible Service Costs:
 - Departments responsible for overall management or for setting overall policy, such as the board of directors (including their immediate staff), chief executives, financial, accounting, and legal officers (including their immediate staff), unless a substantial part of the cost directly benefits the project.
 - General planning, financial & policy departments (i.e., procurement, strategic planning, quality control, safety engineering, auditing...), unless a substantial part of the cost directly benefits the project.
 - General marketing, selling and advertising costs, unless a substantial part of the cost directly benefits the project.
- **Pollution Remediation** for hazards created when the property was already owned unless such remediation is required to undertake a larger, capital project
- **Related Party Costs** (payments to others inside the same controlled group)
 - Payments made to an internal group within the same company (payment never reaches an outside third party)
- **Repair/Maintenance Costs**
- **Indirect/Administrative Costs**
 - Office supplies
 - Rent
- **Operational Costs**
 - Membership Dues
 - Moving Expenses