

Expense Certification Guide

INSTRUCTIONS: SUBMITTING YOUR EXPENSES

*PLEASE NOTE: The Department of Economic Development (DED) has put the guidelines in place to expedite the amount and issuance of the tax credit. Submissions other than information requested may take longer to process and could be asked for resubmission. If you have questions, please call 573-522-8004.

Established Cost Caps

Cost caps have been established in certain cost categories. Please note: these caps have been established for the state historic preservation tax credit program only. Federal guidelines may vary. Any costs in excess of these limitations must be included in Non-Qualified Expenditures.

Developer Fee - The portion of this fee included in Qualified Rehabilitation Expenditures cannot exceed twenty percent (20%) of Total Project Costs *less* Non-Qualified Expenditures (including acquisition costs), Identify of Interest entity fees and profit (including general contractor profit), and the developer fee itself.

Under federal law, developer fees may be eligible for federal historic rehabilitation tax credits. Thus, such fees may also be eligible for state HTC credits. However, not all duties performed by a developer support eligible costs for earning HTC and are therefore not eligible to be added as Qualified Rehabilitation Expenditures. Duties not supporting eligible costs would include, but not be limited to, those related to syndication, organization, acquisition of the property, obtaining permanent financing, lease-up of the property, and ongoing property management.

If developer fees are incurred for a project, the Project Owner must provide documentation with the cost certification establishing that the fee has been incurred as of the completion of rehabilitation. Among the factors establishing that the fee has been incurred is that the amount of the fee is fixed and absolute. If payment of the fee is conditioned upon occurrence or non-occurrence of some event or other contingency, the fee will not be treated as incurred and will not be an eligible Qualified Rehabilitation Expenditure.

Generally, arrangements for developer services are outlined in contracts or agreements between the developer and the Project Owner. If there is any chance that the Project Owner will accrue developer fees beyond Final Completion, the contract or agreement with the developer

must be reviewed by DED to determine when the fee is earned and what portion of the fee should be considered a Qualified Rehabilitation Expenditure. This document must be provided to DED at initial application, if executed at or prior to that date, but no later than the last to occur of: (1) initial closing on construction financing or (2) initial closing on federal historic credit equity, if applicable. If no Developer Fee agreement has been submitted for review by the last to occur of these dates, no Developer Fee will be deemed eligible as Qualified Rehabilitation Expenditures. Any amendments to the developer fee agreement that changes the amount of the developer fee should also include the justification for the increase or decrease to the amount. Any developer contracts/agreements and amendments thereto must be signed and notarized by all parties involved to be considered for eligibility for HTC credits.

Accrual of up to 90% of developer fees will be considered for eligibility for HTC credits, so long as the developer fee agreement or other contractual document provides for payment of all accrued amounts within six years of Final Completion.

The same developer fee guidelines above apply to the NPA program. In the event the project is receiving both HTC and NPA credits, one developer fee will be allowed per project.

Contractor General Requirement Costs - If General Requirement costs included in Qualified Rehabilitation Expenditures exceed six percent (6%) of total contract costs (including change orders approved in writing by the Project Owner) before contractor profit, general requirements and overhead, then all costs must be itemized and backup documentation provided.

Contractor Overhead Costs - Overhead costs included in Qualified Rehabilitation Expenditures may not exceed two percent (2%) of total contract costs (including change orders approved in writing by the Project Owner) before contractor profit, overhead and general requirements. This must be a separate line item from the Contractor Profit.

Contractor Profit - Profit paid to the general contractor included in Qualified Rehabilitation Expenditures may not exceed ten percent (10%) of total contract costs (including change orders approved in writing by the Project Owner) before profit, overhead and general requirements. This must be a separate line item from Contractor Overhead Costs.

Whether or not there is an IOI, no general contractor fee (overhead or profit) will be allowed when fifty percent (50%) or more of the contract sum in the construction contract is subcontracted to one subcontractor, equipment lessor or material supplier. No general contractor fee (overhead or profit) will be allowed when seventy-five percent (75%) or more of

the contract sum in the construction contract is subcontracted to three (3) or fewer subcontractors, equipment lessors or material suppliers. For purposes of applying this rule, IOI parties will be aggregated and treated as a single subcontractor, equipment lessor or material supplier.

Expense Guidelines: Total Project Costs Less Than \$250,000 (excluding acquisition)

For applications with a total project cost less than \$250,000, the applicant must engage a Certified Public Accountant (CPA) to prepare the expenditures list using the Exp-Form or a spreadsheet with identical column headings as the form. The Exp-Form must be submitted to DED within 180 days after the date of Final Completion. Once all required submission documents are received, the credit approval process will take approximately 60 days.

Expenses must be grouped into "categories of work." For example, all masonry expenses must be grouped together, as should all plumbing expenses be listed together. Each category must be sub-totaled. A list of categories has been included in Exhibit A.

- A CPA licensed in Missouri must compile the invoices and proof of payment. DED will review documentation for expense eligibility.
- Separate expenses *by date paid in ascending order or by category of expenditure*.
- Submit back-up documentation. Group the paid invoices, receipts and/or cancelled checks in the order in which they appear on the list of itemized expenditures (Exp-Form). Backup documentation may include, but is not limited to, the following:
 - Invoices, contracts, time sheets, or other documents that show expenses were incurred, AND
 - - Final Bank and/or Title Company disbursement sheets and/or draw statements, OR
 - - Copies of cancelled checks, bank statements, credit card statements, money orders or other documents that show the invoices were paid. Bank and credit card statements must include the payee, date paid, and amount of the check or charge.
 - Please highlight applicable items on all backup documentation.
 - Cash payments will be disallowed.
 - Incurred, but unpaid, costs will be disallowed unless a legal document establishing the liability is submitted to, and approved by, DED.
 - Items without both the itemized, descriptive invoice and the proof of payment will be disallowed.

- Descriptions of work are mandatory.

Exp-Form Format

There are nine columns on the Exp-Form. See Exhibit B for a sample of the form. The column headings are listed and explained below:

- **Category of Work**

Each expenditure will fall into a broad type-of-work category, such as architect, engineering, ect. Group all such expenditures together, and subtotal each category. Do not separate expenses on receipts such as Home Depot. Put all in one category and provide the required description of expense.

- **Method of Payment**

For each expenditure, enter the payment method, such as check number, credit card, draw number or Title Company disbursement number.

- **Date Paid**

Enter the date the expenditure was paid.

- **IOI**

Place an X in this column if the Payee/Contractor is an Identity of Interest entity.

- **Payee/Contractor**

Enter the name of the payee/contractor that provided the services or supplies.

- **Description of Expenditure**

Provide a brief description of the work performed or supplies purchased. The description is a mandatory part of the form. The description is not a restatement of the category.

- **Total Amount of Expenditure**

Enter the dollar amount of each expenditure in this column. Subtotal each "category of work" and provide a total of all project costs at the end of the list. *NOTE: Expenditures must be separated if they were incurred January 1, 1998 to August 28, 1998. Expenditures for work done before that date may be eligible for a tax credit, but are not sellable or transferable.*

- **Qualified Rehabilitation Expenditures**

Enter the amount from the total column that represents qualified tax credit basis.

- **Non-Qualified Expenditures**

Enter the amount from the total column that represents expenditures not qualified as tax credit basis. **Note:** The total of the Qualified and Non-Qualified columns should equal the Total Amount of Expenditure column.

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Expense Guidelines: Total Project Costs \$250,000 or more (excluding acquisition)

All projects with total project costs of \$250,000 or more must prepare the cost certification as described below. In addition, where there is an Identity of Interest between the Project Owner and the General Contractor (GC) a cost certification must also be prepared for the GC's project expenses. Likewise, where there is an Identity of Interest between the Project Owner or General Contractor and any subcontractor, equipment lessor, or material supplier, a cost certification must also be prepared for the project expenses related to such parties.

All Project Owner (Exp-Form) and Contractor (Con-Form) cost certifications must be submitted to DED within 180 days after the date of Final Completion. Once all required submission documents are received, the credit approval process will take approximately 60 days.

For projects with total costs of \$250,000 or more in which tax credits are being sought under both the Historic Preservation Tax Credit (HTC) program and the Neighborhood Preservation Tax Credit Program (NPA) (sections 135.475 to 135.487, RSMo), the project applicant must follow the HTC guidelines and complete the HTC cost certification, which will be used by both programs in the credit approval process. That is, one cost certification will suffice for projects utilizing both HTC and NPA credits on the same property.

For applications with Total Project Costs of \$250,000 or more, the applicant must prepare the expenditures list using the Exp-Form or a spreadsheet with identical column headings as the Exp-Form. (See Exhibit B for a sample form).

- A Certified Public Accountant (CPA) licensed in the State of Missouri must perform an examination of the expenditures list (Exp-Form).
 - The CPA must perform substantive audit procedures covering, at a minimum, 100% of the total expenditures listed on the form as well as 100% of the proof of payment making sure all costs were incurred for the specific project and were paid.
 - HTC program - The auditor should make a determination as to whether the cost is properly classified as Qualified Rehabilitation Expenditures as defined under section 47(c)(2)(A) of the Internal Revenue Code of 1986 as amended or as further defined in

the Missouri Department of Economic Development Cost Certification Guidelines for state historic preservation credits or as a Non-Qualified Expenditure.

- NPA program - The auditor should make a determination as to whether the cost is eligible under program statutes and according to the NPA guidelines.
- Expenses that do not have both an itemized/descriptive invoice from the vendor as well as proof of payment shall be disallowed by the auditor.
- The auditor's opinion letter should accompany the Exp-Form, be signed by the firm or person conducting the audit, and *be in a format similar to the Exp-Form*.
- Accrued, but unpaid items must be clearly noted (see Note 3 below).
- Notes:
 - Note 1: DED reserves the right to request backup documentation for any expenditure.
 - Note 2: Cash payments will be disallowed.
 - Note 3: Unpaid costs must be accompanied by proper supporting documentation that meets DED's approval, or they will be disallowed (e.g., accrued, but unpaid developer fees must be accompanied by a signed, development fee agreement that meets requirements discussed elsewhere in the guidelines).

Labor Costs:

- 1. All labor costs must be:
 - a. Documented by signed time cards, time sheets or similar contemporaneous payroll records to include description of work.
 - b. Coded to, or otherwise clearly attributable to the specific job.
 - c. Reported at the actual rate paid (or at the standard pay rate for the responsibilities performed, but in no case more than the actual rate), with allowance for standard payroll burden. The burden rate used should be clearly calculated and auditable.
- 2. Allowable labor costs include those related to:
 - a. Activities directly associated with the physical rehabilitation of the project
 - b. Direct onsite supervision
 - c. Direct onsite construction management

Whenever possible, labor costs associated with (a), above, should be classified according to the applicable cost category (e.g. carpentry). Costs associated with functions (b), and (c) should be classified as "Construction Supervision".
- 3. Salaries of officers or executives of the reporting entity may be allowed for performing a type of duty customarily performed by a non-executive, but only at the going rate for non-

executives. Time charged shall be only for the actual time such nonexecutive duties were performed.

- 4. Salaries of employees whose activities are confirmed to work in the main office or any branch office of the reporting entity shall not be included on the Con-Form.
- 5. All labor cost documentation must contain specific duties. Duplicate duties/efforts will be reviewed and may not be eligible.

Exp-Form Format

There are nine columns on the Exp-Form. See Exhibit B for a sample of the form. The column headings are listed and explained below:

- **Category of Work**

Each expenditure will fall into a broad type-of-word category, such as architect, engineering, etc. Group all such expenditures together, and subtotal each category. Do not separate expenses on receipts such as Home Depot. Put all in one category and provide the required description of expense.

- **Method of Payment**

For each expenditure, enter the payment method, such as check number, credit card, draw number or Title Company disbursement number.

- **Date Paid**

Enter the date the expenditure was paid.

- **IOI**

Place an X in this column if the Payee/Contractor is an Identity of Interest entity.

- **Payee/Contractor**

Enter the name of the payee/contractor that provided the services or supplies.

- **Description of Expenditure**

Provide a brief description of the work performed or supplies purchased. The description is a mandatory part of the form. The description is not a restatement of category.

- **Total Amount of Expenditure**

Enter the dollar amount of each expenditure in this column. Subtotal each "category of work" and provide a total of all project costs at the end of the list. *NOTE: Expenditures must be separated if they were incurred January 1, 1998 to August 28, 1998. Expenditures for work done before that date may be eligible for a tax credit, but are not sellable or transferable.*

- **Qualified Rehabilitation Expenditures**

Enter the amount from the total column that represents qualified tax credit basis.

- **Non-Qualified Expenditures**

Enter the amount from the total column that represents expenditures not qualified as tax credit basis. **Note:** The total of the Qualified and Non-Qualified columns should equal the Total Amount of Expenditure column.

Contractor Cost Certification (Con-Form)

Who Must Cost Certify?

- **A.** General Contractor (regardless of contract type), where an IOI exists.
- **B.** Subcontractors, equipment lessors, and material suppliers if: (a) Total Project Costs exceed \$250,000, and (b) the total of all Identity of Interest (IOI) payments (excluding direct reimbursements) exceed the lessor of (1) \$50,000 or (2) 1% of the qualified rehabilitation costs claimed on Exp-Form, and an IOI exists with either the Project Owner, developer, or general contractor.

Cost Certification Requirement and Allowable Costs:

- A CPA must perform an examination of the itemized list of contractor's costs (Con-Form) - see Exhibit C for the format.
 - The contractor costs shown on the Exp-Form should match the total of costs shown on Con-Form. There is no need to list the details from the Con-Form on the Exp-Form. A single line item of the total will suffice.

General Contractor:

The general contractor shall submit the Con-Form along with the examination report of a CPA independent of both the general contractor and the Project Owner, in the form of Exhibit C. The Con-Form shall include all direct costs of the auditee incurred in connection with performance of the contract, including change orders approved in writing. Indirect costs not specifically allowed in the accompanying guidelines (e.g., general contractor's general overhead > 2% allowance) are not allowable and should not be reported on the Con-Form.

Amounts reported on the Con-Form should represent the Contractor's cost, except as discussed below.

- Cash payments are not allowable and should not be reported on the Exp-Form.
- Direct costs for which the Contractor was not paid (including, but not limited to cost overruns on fixed price guaranteed maximum price contracts, unapproved change orders, etc.) should be included in Exp-Form and classified as qualified or non-qualified as appropriate.

Whether or not there is an IOI, no general contractor fee (overhead or profit) will be allowed when fifty percent (50%) or more of the contract sum in the construction contract is subcontracted to one subcontractor, equipment lessor or material supplier. No general contractor fee (overhead or profit) will be allowed when seventy-five percent (75%) or more of the contract sum in the construction contract is subcontracted to three (3) or fewer subcontractors, equipment lessors or material suppliers. For purposes of applying this rule, IOI parties will be aggregated and treated as a single subcontractor, equipment lessor or material supplier.

Classification of Costs as Qualifying / Non-Qualifying:

Costs reported on the Con-Form, shall be classified as qualifying or non-qualifying in accordance with the guidelines established by DED for the Historic Preservation Program for Exp-Form.

Performance bond premiums or, if alternatively used, letter of credit fees are allowable costs and should be reported as a cost category separate from general requirements, regardless of whether reimbursed directly by the Project Owner.

The cost for the contractor cost certifications, including amounts paid to non-identity of interest outside consultants or CPAs for assistance with preparation of the Con-Form are eligible costs and should be reported as a cost category separate from general requirements, regardless of whether reimbursed directly by the Project Owner.

Labor Costs:

- 1. All labor costs must be:
 - a. Documented by signed time cards, time sheets or similar contemporaneous payroll records to include description of work.
 - b. Coded to, or otherwise clearly attributable to the specific job.

- c. Reported at the actual rate paid (or at the standard pay rate for the responsibilities performed, but in no case more than actual rate), with allowance for standard payroll burden. The burden rate used should be clearly calculated and auditable.
- 2. Allowable labor costs include those related to:
 - a. Activities directly associated with the physical rehabilitation of the project
 - b. Direct onsite supervision
 - c. Direct onsite construction management

Whenever possible, labor costs associated with (a), above, should be classified according to the applicable cost category (e.g. carpentry). Costs associated with functions (b), and (c) should be classified as "Construction Supervision".
- 3. Salaries of officers or executives of the reporting entity may be allowed for performing a type of duty customarily performed by a non-executive, but only at the going rate for non-executives. Time charged shall be only for the actual time such nonexecutive duties were performed.
- 4. Salaries of employees whose activities are confined to work in the main office or any branch office of the reporting entity shall not be included on the Con-Form.
- 5. All labor cost documentation must contain specific duties. Duplicate duties/efforts will be reviewed and may not be eligible.

General Overhead

The contractor may report general overhead costs of 2% of total contract costs (including change orders approved in writing by the owner) before contractor profit, overhead and general requirements. This allowance should be reported as a single line item on the Con-Form. It is not necessary to provide detail for this cost.

General Requirements:

- 1. The contractor must report general requirements as a single amount on the Con-Form with full detail of such amount reported on Schedule A to the Con-Form. This is required if the contractor reports general requirements greater than six percent of total contract costs (including change orders approved in writing by the owner) before contractor profit, overhead and general requirements. As with all other costs utilizing an entity designated IOI, all costs must be reviewed to the invoice level.
- 2. Qualified items of cost include:
 - a. building permits

- b. temporary sheds, construction trailers, toilets, tool storage, shops, walkways, fences, guardrails and medical or first aid facilities,
- c. temporary heat, water, communications, light and power to job site for construction,
- d. cleanup and rubbish disposal,
- e. watchmen's wages, alarm or police monitoring, or other security costs to prevent theft and/or vandalism at the jobsite,
- f. medical, first aid and related costs at the jobsite, including ice,
- g. equipment rental, if not included elsewhere

Contractor's Profit

Contractor's Actual, Allowable and Nonallowable Profit are calculated on Schedule B.

Contractor's Actual Profit represents the difference between the amount it will be paid by the Project Owner (Line 3 of Schedule B) and its actual cost (Line 7 of Schedule B). If Contractor's Profit exceeds 10% of total contract costs (including change orders approved in writing by the owner) before contractor profit, overhead and general requirements, the excess profit shall be reported on Con-Form as a non-qualified cost. Under no circumstance will Con-Form report qualified costs in excess of the amount paid to the Contractor by the owner/tax credit applicant. In the event that Contractor's Allowable Costs exceed the amount paid by the owner, Contractor's Profit will be reported as a negative amount (or loss). In such cases the Contractor's loss will be reported first as a reduction of non-qualified costs until such costs are reduced to zero, and thereafter as a reduction of qualified costs.

It should be noted that, because actual Contractor Profit is influenced by many factors including the actual cost of self-performed work, general requirements, etc, the amount of Contractor Profit reported on Con-Form may differ significantly from the amount billed as contractor fee or profit on the contractor's AIA billing.

Note: It may be more efficient for the same CPA to perform the audit of the Exp-Form and the Con-Form; however, it is not required. At a minimum, the applicant should coordinate the services between the two providers.

TRANSFERRING CREDITS

In the event the taxpayer receiving the Tax Credit Certification(s) wishes to transfer, sell or assign the tax credits, the taxpayer must notify DED in writing of this transaction. The taxpayer

must fill out the MO-TF (Transfer Form) for each transfer being requested. The form is available in the Appendix. There may be federal and state tax on profit of the sale or purchase of historic preservation tax credits. Consult a tax advisor with any tax questions.

After receipt of a completed MO-TF and the original Certification, DED will reissue a Tax Credit Certificate to the assignee of the credits and notify the Department of Revenue of the change in assignee. The period of time tax credits are redeemable remains the same as the original tax credit.

Credits earned for rehabilitation expenses incurred prior to August 28, 1998, cannot be transferred, sold, or assigned.