

**New York State Department of Taxation and Finance**  
**Taxpayer Services Division**  
**Technical Services Bureau**

TSB-A-87 (6) R  
Real Property Transfer  
Gains Tax  
April 23, 1987

STATE OF NEW YORK  
STATE TAX COMMISSION

ADVISORY OPINION

PETITION NO. M870303B

On March 3, 1987, a Petition for Advisory Opinion was received on behalf of Broad Financial Center Partners, located at 126 East 56th Street, 30th Floor, New York, New York.

The issue raised is whether the method proposed by Petitioner for determining the amount of construction period interest, construction period real property taxes, insurance, security and specifically identified indirect project costs, to be included in a building's original purchase price for the purpose of computing the Real Property Transfer Gains Tax (hereinafter the Gains Tax) imposed by Article 31-B of the Tax Law, is acceptable to the Department of Taxation and Finance.

The facts as presented are as follows: the Petitioner, a New York partnership, owns an office building (hereinafter the Building) in New York City at 33 Whitehall Street. Financing for the construction of the Building was provided first by Manufacturers Hanover Trust Company and then by Aetna Life Insurance Company. The Petitioner has leased and intends to continue to lease floors of the Building to individual tenants and has completed construction on some of the floors in the Building and intends to complete construction of the balance of the floors in the Building according to tenants' specifications.

Construction began in June of 1984 and has occurred in two stages. During the first stage, the Building's foundation, shell (including external walls), core and lobby were substantially completed, as evidenced by the issuance of a temporary Certificate of Occupancy. The first stage of construction was substantially completed in December 1986.

During the second stage, the Petitioner will enter into leases covering one or more floors with individual tenants and complete construction of the leased floor(s) according to the particular tenant's specifications. This second stage of construction includes, as to each floor, the installation of air conditioning ducts, sprinkler systems, flooring, ceiling, lighting, electrical and telephone outlets, and any necessary partitions on the particular leased floor(s). It is anticipated that the second stage of construction will begin in April of 1987 and, depending on market conditions, the Petitioner estimates that the second stage of construction will be complete in the last quarter of 1989.

Since construction of the Building will not be completed at a single time, but rather on a floor by floor basis, Petitioner proposes that, in computing the original purchase price of the Building, interest on loans incurred in connection with the construction of the Building, construction period real property taxes, insurance, security and specifically identified indirect project costs be allocated to a particular floor in proportion to the ratio of that floor's square footage to the Building's total

square footage and such amounts be included in the Building's original purchase price to the extent paid or accrued through the date that construction ends with respect to that floor.

Gains tax regulations section 590.16(d) states in pertinent part as follows:

- Q. What additional costs are allowed if incurred during a construction period?
- A. Other costs that are clearly associated with construction of a real estate project can also be included as a cost of constructing a capital improvement. If the capital improvement requires a construction period, a period of time in which necessary activities are conducted to bring the improvement on the real property to that state or condition necessary for its intended use, the interest cost paid during that period on a construction loan, real property taxes, insurance or similar items are includible as a cost of construction.

Also, Section 590.16(d) of the Gains Tax Regulations states in pertinent part as follows:

Indirect project costs may also be included in original purchase price if they are specifically identified with a project. Indirect project costs are indirect costs incurred after the acquisition of the property, such as construction administration costs, legal fees, and various office costs (cost accounting expenses, design costs, and other expenses of departments providing services to projects), that clearly relate to projects under construction. The full amount of indirect project costs that clearly relate to a specific project, such as costs associated with a field office at a project site and the administrative personnel that staff the office, may be added to the cost of the capital improvement. However, indirect project costs which relate to numerous projects must be allocated in a rational manner to the projects to which the cost relate based on the nature of activity that gave rise to the costs.

Indirect project costs that do not clearly pertain to projects under construction and all general and administrative costs cannot be added to the cost of capital improvement. General and administrative costs include such costs as corporate management salaries, general accounting expenses, corporate office expenses, general legal fees, and similar costs which are generally incurred by all enterprises in the conduct of business.

Furthermore, section 590.16(e) of the Gains Tax regulations states in pertinent part as follows:

The construction period ends when the real property is substantially complete and ready to be placed in service. Some construction projects are completed in sections, leaving part of the real property capable of being used independently

TSB-A-87 (6) R  
Real Property Transfer  
Gains Tax  
April 23, 1987

while construction continues on other sections. For such projects, allowable construction period expenses shall cease on each part when it is substantially complete and ready for use. A construction period for a project may be suspended before a project is completed for various reasons, such as insufficient sales or insufficient rental demands. In such a case, the construction period has ended, and the costs allowed during a construction period will no longer be allowed.

Based on the foregoing, the costs of interest on construction loans incurred in connection with the construction of the Building, construction period real property taxes, insurance, security, and specifically identified indirect project costs incurred during a construction period are allowed as costs of constructing a capital improvement. The specific method of allocating such costs in the case of a construction project which is completed in steps is not specifically stated in the Gains Tax regulations. However, the method chosen by the Petitioner of allocating such costs would be deemed a proper method as long as it results in an equitable allocation.

Also, as provided at section 590.16(e) of the Gains Tax regulations, if there is a suspension of the construction activity between the end of the first stage of construction and the beginning of the second stage, the costs allowed during a construction period will no longer be allowed between such stages.

DATED: April 23, 1987

s/FRANK J. PUCCIA  
Director  
Technical Services Bureau

NOTE: The opinions expressed in Advisory Opinions  
are limited to the facts set forth therein.