

REAL ESTATE



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Q I borrowed money to build a building. Is the interest deductible?

A Generally, for most real estate development projects, all of the interest incurred during the development period must be capitalized and included as land and building costs.

In addition, Treasury Regulations require the capitalization of the interest which would have been avoided if accumulated production expenditures had been used to repay or reduce the taxpayer's outstanding debt. The assumption underlying this requirement is that debt of the taxpayer would have been repaid or reduced but for the payment of development costs. In other words, the capitalization of interest cannot be avoided by deferring payment of operational costs or taking out operating lines of credit or other debt, so that current cash flow is available to fund development costs.

Because these interest capitalization rules are complex, you should seek the advice of a RINA real estate professional before financing construction costs.