**Section 140.535 Costs for Interest, Taxes and Rent**

a) Allowable costs for interest expenses

1) Interest – Reasonable and necessary interest on both current and capital indebtedness is an allowable cost provided that the indebtedness is related to patient care. No interest cost shall be recognized to the extent it exceeds payment used on 125 percent of the prevailing mortgage rate at the time of the loan. Interest paid on loans from the providers' donor-restricted funds or qualified pension fund is allowable. Interest income from unrestricted funds must be used to offset allowable interest expense. Interest incurred during construction must be capitalized and amortized over the life of the asset. Interest penalties are not allowable costs. Interest on loans to purchase capital stock are not allowable costs.

2) Effective for the rate year beginning July 1, 1984, for sales occuring January 1, 1978, and after, where the increased capital cost is deemed unreasonable, and adjustment to interest expense is made, the principal on which interest is computed must be reduced by the excess of the purchase price over the calculated reasonable capital expense.

b) Rent – Reasonable amounts expended for the rental of care related assets are allowable insofar as they represent arms length transactions between the owners of the property and the party claiming the expense. Subleases are not an allowable expense. Rents paid to related organizations are not an allowable expense. (Capital costs of related organizations must be itemized.) Real estate and personal property taxes included in rental amounts should be claimed as a tax expense.

c) Taxes – Real estate and personal property taxes on care related assets are allowable capital costs. Special assessments on land which represent capital improvements such as sewers, water, and pavements must be capitalized and depreciated over their estimated useful lives. Fines and penalties associated with property taxes are not an allowable cost. The personal property replacement tax is not allowable.

1) A facility that is organized as a not-for-profit entity must attach a copy of a denial of an application for exemption from real estate taxes, to the cost report filed with the Department. This exemption denial should be no more than four years old at the time the cost report is filed. A not-for-profit entity that leases the building from a for-profit entity does not have to attach a denial report.

2) Starting with cost reporting periods ending in 1994, if the long term care facility chooses to appeal an increase in real estate tax, the direct cost of that appeal may be reported as a real estate tax cost instead of a professional fee cost. An example of this cost would be a fee paid to a lawyer to prepare the appeal. Indirect costs such as overhead costs cannot be reported as a real estate tax appeal cost. Only fees paid to lawyers or organizations which specialize in real estate tax appeals may be considered to be a direct appeal cost. Services provided by related entities as defined in Section 140.537 may not be classified as a real estate tax cost. Professional fees may not be reported as a real estate tax cost if no appeal is filed. A copy of the invoice which provides details of services provided must be submitted with the cost report. A copy of the decision from the real estate tax appeal board must also be submitted with the cost report for the year in which the decision was received.

(Source: Amended at 19 Ill. Reg. 15692, effective November 6, 1995)