MN HOUSE RESEARCH

Bill Summary

H.F. 457

First engrossment

Subject	**Tax credit for converting buildings**
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Overview

H.F. 457 would establish a new tax credit and grant program for expenses incurred in converting buildings from one use to another. Qualifying projects would include conversions from commercial use to another use that a building was not intentionally built for, or to convert vacant floor space to income-producing uses.

Applicants would be required to apply to the Department of Employment and Economic Development (DEED) for the credit or grant prior to beginning work, and would have three years to complete a project. Once placed in service for the new uses, an applicant would receive the credit or grant.

This bill would also require DEED to produce reports on the economic impact of the credit and grant program, and detailed information on the projects funded.

Summary

Section	Description
1	**Credit for conversion of underutilized buildings.**

Subd. 1. Definitions. Provides the following definitions for the proposed credit.

- "Account" means the conversion credit administration account, created in the special revenue fund in subdivision 3.
- "Applicant" means the developer, owner, or taxpayer applying for the credit or grant, who receives the allocation certificate.
- "Placed in service" means a substantial completion of conversion work that allows for occupancy.
- "Qualifying conversion expenses" means the expenses paid for a qualifying conversion project.

Section	Description
	▪ "Qualifying project" means a project that converts a building placed in service at least 15 years ago, that either converts a building from a commercial use to another use, or vacant floor space to usable space.

Subd. 2. Credit or grant allowed. Allows a credit against the individual or corporate income tax equal to 30 percent of conversion expenses. The project must meet certain requirements to qualify: a certain percentage of the exterior walls and internal structural framework must be retained, and the conversion work must be completed within three years of receiving the credit allocation certificate. Applicants may apply for a credit or grant, or a combination of the two. Expenses used to qualify for the historic structure credit may not be used to qualify for this credit.

Subd. 3. Applications; allocations. Requires applicants to apply to DEED for an allocation certificate prior to beginning conversion work and allows DEED to collect an administrative fee of up to one percent of projected expenses. DEED would then determine applicant eligibility, the anticipated credit or grant amount, the fiscal year in which it is intended to apply, and the date when the allocation expires. This subdivision would also create a conversion credit administration account in the special revenue fund for the fee.

Subd. 4. Credit certificates; grants. Requires the applicant to notify DEED when the project is placed in service, at which time DEED would issue a credit certificate to the applicant. The credit would be assignable prior to being claimed. In addition, the certificate could be issued to a party other than the applicant.

Subd. 5. Partnerships; multiple owners. Determines how the credit is distributed to the owners of pass-through businesses.

Subd. 6. Credit refundable. Allows the amount of the credit that exceeds a taxpayer's liability for tax to be refunded to the taxpayer.

Subd. 7. Appropriations. Appropriates general fund money to pay the refunds under section 6 and the proposed grants, and appropriates money in the proposed new account to DEED for administrative expenses, including for the required report in subdivision 9.

Subd. 8. Manner of claiming the credit. Allows the Department of Revenue to determine how the credit is claimed, including allowing the credit to be claimed separately from the filing of a taxpayer's return. Provides DEED with the authority to administer the grant payments.

Section	Description
	Subd. 9. Reports required. Requires DEED to prepare reports on the credit for the house and senate tax committees, including an annual report on the economic impact of the credit, and a five-year report regarding the location of all projects, reclaimed building materials used or repurposed, leasing and sales information for completed projects, energy and sustainability measures, applicant demographic and employee information, and changes in building uses. **Subd. 10. Sunset.** Expires the credit for fiscal year 2032.
2	**Credit for conversion of underutilized buildings.** Allows insurance companies to claim the credit in section 1 against their premiums tax liability.
3	**Public process; credit for conversion of underutilized buildings.** Requires DEED to undertake a public process to develop forms related to the credit and to spread information about the program among stakeholders.

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