SENATE COUNSEL, RESEARCH, & FISCAL ANALYSIS

BILL SUMMARY

S.F. No. 768 – Credit for conversion of underutilized buildings (as proposed to be amended by the A-1 amendment)

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This bill provides a refundable tax credit or grant for expenses made to convert an underutilized building to an income-producing and habitable structure.

Section 1. Credit for conversion of underutilized buildings.

Subd. 1. Definitions. Defines terms applicable to the credit or grant. In pertinent part:

"Qualifying project" means a building project:

- to convert a structure that was first placed in service at least fifteen years before conversion begins;
- that demonstrates significant conversion of use by either:
  - converting the structure from one commercial, income-producing, habitable use to another for which the structure had not been previously used or for which purpose the structure was not intentionally built; or
  - having at least 50 percent of its occupiable floor area vacant for at least five years, with the proposed conversion returning the vacant area to an income-producing, habitable condition; and
- that meets other criteria under this section.

Subd. 2. Credit or grant allowed. Allows a credit or grant equal to 30 percent of the cost of qualifying conversion expenses for a qualifying project. An applicant may claim the credit or grant or a combination of credit and grant. The credit is claimed or the grant is paid in the year the qualifying project is placed in service. The qualifying project must meet the following requirements:

- at least 75 percent of the existing external walls of the structure must be retained as exterior or interior walls, with at least 50 percent of the existing external walls kept in place as external walls;

- at least 75 percent of the existing internal structural framework of the building must be retained in place; and
- the conversion work must commence and be completed within three years of the date of the allocation certificate issued under subdivision 3.

Subd. 3. Application; allocations. Requires an applicant for a qualifying project to apply to the commissioner of DEED for a credit, grant, or both before the building conversion begins. Sets forth the information that must be included in the application. Establishes the credit conversion administration account in the special revenue fund, into which application fees are deposited. The commissioner of DEED may collect a fee of up to one percent of the estimated qualifying conversion expenses to offset administrative costs. Requires the commissioner of DEED to issue an allocation certificate verifying eligibility for the credit or grant and notify the applicant of the determination in writing.

Subd. 4. Credit certificates; grants. Requires the applicant of a qualifying project to notify the commissioner of DEED when the qualifying project is placed in service, after which the commissioner of DEED must issue a credit certificate or pay a grant to the designated taxpayer. The credit may be assigned to another taxpayer and the taxpayer must notify the commissioner of DEED within 30 days of the assignment.

Subd. 5. Partnerships; multiple owners. Requires the credit to be passed through to owners, members, partners, or shareholders of an applicable pass-through entity on a pro rata basis or as specifically allocated in organizational documents for any other executed agreement as of the last day of the taxable year.

Subd. 6. Credit refundable. Provides that the credit is refundable.

Subd. 7. Appropriations. Appropriates from the general fund the amount necessary to pay refunds and grants to the commissioner of revenue and the commissioner DEED.

Subd. 8. Manner of claiming credit or grant. Requires the commissioner of revenue to prescribe the manner in which the credit is paid, and the commissioner of DEED to prescribe how the grant is paid.

Subd. 9. Reports required. Requires the commissioner of DEED to issue an annual report to the chairs and ranking members of the Senate and House taxes committees and prescribes the contents of the report.

Subd. 10. Sunset. Requires the credit to expire after fiscal year 2031, but the commissioner of DEED has authority to issue credit certificates through 2035 that are based on allocation certificates that were issued before fiscal year 2032.

Effective for taxable years beginning after December 31, 2025.

Section 2. Credit for conversion of underutilized buildings. Allows the credit to be claimed against the insurance premiums tax. The credit is refundable. Effective for taxable years beginning after December 31, 2025.

Section 3. Public process; credit for conversion of underutilized buildings. Requires the commissioner of DEED to hold a public hearing for stakeholder feedback after completion of the development of the conversion program application information and forms required to claim the credit. Also requires the commissioner of DEED to publicize sufficient materials for self-education and promotion of the program by stakeholders. Effective the day following final enactment.