

SENATE
STATE OF MINNESOTA
NINETY-FOURTH SESSION

S.F. No. 768

(SENATE AUTHORS: MOHAMED, Housley, Rest, Hauschild and Oumou Verbeten)		
DATE	D-PG	OFFICIAL STATUS
01/30/2025	218	Introduction and first reading Referred to Taxes
03/13/2025	775	Author added Oumou Verbeten

1.1

A bill for an act

1.2

relating to taxation; income; proposing a refundable credit for conversion of

1.3

underutilized buildings; allowing grants in lieu of the credit; proposing a sunset

1.4

for the credit; requiring reports; proposing coding for new law in Minnesota

1.5

Statutes, chapter 290.

1.6

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.7

Section 1. [290.0687] CREDIT FOR CONVERSION OF UNDERUTILIZED

1.8

BUILDINGS.

1.9

Subdivision 1. Definitions. (a) For purposes of this section, the following terms have

1.10

the meanings given.

1.11

(b) "Account" means the conversion credit administration account in the special revenue

1.12

fund.

1.13

(c) "Applicant" means the developer, owner, or taxpayer applying for the credit or grant

1.14

and receiving the allocation certificate.

1.15

(d) "Placed in service" means the completion of substantial conversion work that would

1.16

allow for occupancy of the entire building or an identifiable portion of the building.

1.17

(e) "Qualifying conversion expenses" means expenses for a qualifying project.

1.18

(f) "Qualifying project" means a building project:

1.19

(1) to convert a structure that was first placed in service at least fifteen years before

1.20

conversion begins;

1.21

(2) that demonstrates significant conversion of use in one of two ways:

(i) the structure was converted 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

(ii) the structure has had at least 50 percent of its occupiable floor area vacant for a period of no fewer than five years and the proposed conversion will return that vacant area to an income-producing, habitable condition; and

(3) that is otherwise eligible for the credit under this section.

Subd. 2. **Credit or grant allowed.** (a) A credit against the tax imposed under this chapter or a grant is allowed equal to not more than 30 percent of the total cost of qualifying conversion expenses for a qualifying project. The credit is claimable and the grant is payable in the year the qualifying project is placed in service.

(b) To qualify for the credit under this section, the qualifying project must fulfill the following requirements:

(1) 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;

(2) at least 75 percent of the existing internal structural framework of the building must be retained in place; and

(3) the conversion work must commence and be completed within three years of the date of the allocation certificate issued under subdivision 3.

(c) An applicant can apply for a credit or a grant or a combination of a credit and grant under this section.

(d) A claimant is not allowed a credit or grant under this section for any qualifying conversion expenses that are used to claim the credit under section 290.0681.

Subd. 3. **Application; allocations.** (a) To qualify for a credit or grant under this section, the applicant for a qualifying project must apply to the commissioner of employment and economic development for either a credit or grant, or both, before the conversion begins. The application must contain the information and be in the form prescribed by the commissioner of employment and economic development and include the following:

(1) relevant financial information on the qualifying project, including but not limited to estimated and final conversion costs, materials costs, labor costs, the number of jobs created

during construction, a calculation of the preconversion adjusted basis, and the assessed property value in tax year before conversion;

(2) a statement affirming that the qualifying project meets the requirements under this section;

(3) demographic information on the applicant, contractor, and persons employed;

(4) a statement of whether the application is for a credit or grant in lieu of credit or a combination of the two; and

(5) information designating the taxpayer qualifying for the credit or the recipient of the grant.

(b) A conversion credit administration account is established in the special revenue fund. The commissioner of employment and economic development may collect a fee for application of up to one percent of estimated qualifying conversion expenses to offset costs associated with personnel and administrative expenses related to administering the credit and preparing the economic impact report in subdivision 9. Application fees are deposited in the account.

(c) Upon approving an application, the commissioner of employment and economic development shall issue an allocation certificate that:

(1) verifies an applicant's eligibility for the credit or grant;

(2) states the amount of credit or grant anticipated to be awarded for the qualifying project;

(3) states the fiscal year in which the credit or grant is allocated, and that the taxpayer or grant recipient is entitled to either the credit or the grant, or both, at the time the qualifying project is placed in service; and

(4) states the date after which the allocation is no longer available.

(d) The commissioner of employment and economic development must determine if the project is eligible for a credit or a grant, or both, under this section and must notify the applicant in writing of the determination. Eligibility for the credit is subject to review and audit by the commissioner of employment and economic development.

(e) Any decision of the commissioner of employment and economic development under paragraph (c) may be challenged as a contested case under chapter 14. The contested case proceeding must be initiated within 45 days of the date of written notification by the commissioner of employment and economic development.

4.1 Subd. 4. **Credit certificates; grants.** (a) The applicant of a qualifying project for which
4.2 the commissioner of employment and economic development has issued an allocation
4.3 certificate must notify the commissioner of employment and economic development when
4.4 the qualifying project is placed in service. Upon verifying that the qualifying project has
4.5 been placed in service, the commissioner of employment and economic development must
4.6 issue a credit certificate to the taxpayer designated in the application or must pay a grant to
4.7 the recipient designated in the application. The credit certificate must state the amount of
4.8 the credit. The credit and the grant amount must not exceed 30 percent of qualifying
4.9 conversion costs.

4.10 (b) The recipient of a credit certificate may sell, assign, or otherwise transfer, in whole
4.11 or in part, the certificate to one or more persons before the credit is claimed. No portion of
4.12 the credit certificate may be transferred more than two times before the credit is claimed.
4.13 An assignment is not valid unless the assignee notifies the commissioner of employment
4.14 and economic development within 30 days of the date the assignment is made. The
4.15 commissioner of employment and economic development must prescribe the forms necessary
4.16 for notifying the commissioner of employment and economic development of the assignment
4.17 of a credit certificate and for claiming a credit by assignment.

4.18 (c) Credits passed through to partners, members, shareholders, or owners pursuant to
4.19 subdivision 5 are not an assignment of a credit certificate under this subdivision.

4.20 (d) An agreement between the commissioner of employment and economic development
4.21 and the recipient of a credit certificate may allow the credit certificate to be issued to another
4.22 individual or entity.

4.23 Subd. 5. **Partnerships; multiple owners.** Credits granted to a partnership, limited
4.24 liability company taxed as a partnership, S corporation, or multiple owners of property are
4.25 passed through to the partners, members, shareholders, or owners, respectively, pro rata to
4.26 each partner, member, shareholder, or owner based on their share of the entity's assets or
4.27 as specially allocated in their organizational documents or any other executed agreement,
4.28 as of the last day of the taxable year.

4.29 Subd. 6. **Credit refundable.** If the amount of credit that the taxpayer is eligible to receive
4.30 under this section exceeds the liability for tax under this chapter, the commissioner of
4.31 revenue shall refund the excess to the taxpayer.

4.32 Subd. 7. **Appropriations.** (a) The amounts necessary to pay the refunds and grants
4.33 authorized under this section are appropriated to the commissioner of revenue and the
4.34 commissioner of employment and economic development from the general fund.

(b) Amounts in the account are appropriated to the commissioner of employment and economic development for costs associated with personnel and administrative expenses related to administering the conversion credit in this section and for costs associated with preparing the economic impact report required in subdivision 9.

Subd. 8. **Manner of claiming credit or grant.** (a) The commissioner of revenue shall prescribe the manner in which the credit may be claimed. This may include allowing the credit only as a separately processed claim for refund. If the credit under this section is separately processed as a claim for refund, the commissioner of revenue must determine how to reconcile the payment of the credit once the taxpayer files and determines liability.

(b) The commissioner of employment and economic development shall prescribe the manner in which the grant may be paid. This may include allowing the grant to be paid in installments.

Subd. 9. **Reports required.** (a) The commissioner of employment and economic development must dedicate a sufficient amount of the administrative fee to prepare, or contract to be prepared, the following reports to the chairs and ranking minority members of the legislative committees with jurisdiction over taxes:

(1) an annual report on the economic impact of all qualifying projects put in service in each fiscal year; and

(2) a comprehensive five-year report after December 31, 2031, which shall include the:

(i) location of all completed and in-progress qualifying projects under this program;

(ii) amount of building materials reclaimed or reused;

(iii) amount of building materials repurposed onsite, which may include existing structural and finishing components;

(iv) leasing and sales information for completed qualifying projects, including occupancy percentages and rental rates;

(v) energy savings and sustainability measures utilized;

(vi) applicant demographics and numbers of persons employed; and

(vii) changes in use of the structures.

(b) The reports must comply with sections 3.195 and 3.197.

Subd. 10. **Sunset.** This section expires after fiscal year 2031, except that the commissioner of employment and economic development's authority to issue credit certificates under

subdivision 4 based on allocation certificates that were issued before fiscal year 2032 remains in effect through 2035, and the reporting requirements in subdivision 9 remain in effect through the year following the year in which all allocation certificates have either been canceled or resulted in issuance of credit certificates, or 2036, whichever is earlier.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2025.

Sec. 2. **PUBLIC PROCESS; CREDIT FOR CONVERSION OF UNDERUTILIZED BUILDINGS.**

Upon completion of the development of the conversion program application information and forms required to claim the credits in section 1, the commissioner of employment and economic development shall hold a public hearing for the purpose of receiving stakeholder feedback and shall make revisions as deemed appropriate. The commissioner shall make available to the public sufficient materials to allow stakeholders to engage in self-education and promotion of this program.

EFFECTIVE DATE. This section is effective the day following final enactment.