DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Underutilized Building Conversion

April 4, 2024

Revised Description to Remove Ins. Premiums Tax

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 5194 (Klein) / H.F. 5191 (Lee, K.)

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
General Fund	$0	($1,700)	($8,700)	($20,000)

Effective beginning tax year 2025.

EXPLANATION OF THE BILL

The bill creates a new tax credit or grant to facilitate the conversion of underutilized buildings. The credit is refundable and may be claimed against the individual income tax or corporate franchise tax. The credit or grant equals up to 30% of the costs for converting a qualified project and is paid out the year the project is placed in service. The credit may be transferred up to two times before being claimed. The credit would be effective beginning in tax year 2025 and would sunset after fiscal year 2030.

Applicants must apply to the commissioner of the Department of Employment and Economic Development (DEED) for either a credit or grant, or both, before the conversion begins. A qualifying project is a building project that was placed in service at least 15 years before conversion begins and includes significant conversion in one of two ways:

1) The structure is converted from one use to another for which the structure had not previously been used or for which the structure was not intentionally built, or
2) The structure has had at least 50% of its occupiable floor area vacant for at least five years and the proposed conversion will return that vacant area to an income-producing or habitable condition.

Once an application is approved, the commissioner of DEED must issue an allocation certificate stating the amount anticipated to be awarded, the fiscal year in which the credit or grant is allocated, and other information. Upon placing the project in service, the applicant must notify the commissioner of DEED, who will verify the project's completion and either issue a credit certificate or pay the grant.

The Commissioner of DEED must also provide an annual report of the economic impact of all qualifying projects from each fiscal year, and a comprehensive five-year report after calendar year 2030.

REVENUE ANALYSIS DETAIL

- The estimate is based on credits claimed under the South Carolina Abandoned Buildings Revitalization Act and other information.

REVENUE ANALYSIS DETAIL (Cont.)

- The South Carolina credit was enacted in 2013. Over the past five years, about 331 credits have been claimed each year. The average credit is $41,869.
- The estimate was adjusted for the relative size of the construction industry in Minnesota compared to South Carolina, based on industry data from the Bureau of Economic Analysis for 2021.
- The South Carolina credit is capped at $500,000 per taxpayer. Since the Minnesota bill has no maximum credit, the estimate is increased by about $14.3 million per year to account for large projects, based on the average reported cost of large-scale conversion projects that have taken place in Minnesota since 2021.
- The credit rate in South Carolina is 25% compared to 30% in the Minnesota bill. The estimate was adjusted to account for the difference in credit rates.
- The estimate includes the combined total of credits and grants. Both credits and grants are assumed to be claimed or paid in the year that the project is placed in service.
- The timing of the payments is estimated based on historical information from SHPO regarding projects utilizing the Historic Rehabilitation Credit. Once a credit has been allocated, about 17% of the credit certificates are expected to be issued in the same fiscal year, 31% will be issued in the next fiscal year, 39% will be issued two fiscal years later, and 14% will be issued three fiscal years later.
- It is estimated that about $33 million in credit certificates will be allocated in fiscal year 2025, with that amount growing at about 5% a year thereafter.
- The fiscal year impact will be about $31 million by fiscal year 2028, and peak at $35.9 million in fiscal year 2030.
- Tax year impacts are allocated 30% to the current fiscal year and 70% to the following fiscal year.

Number of Taxpayers: About 400 taxpayers are expected to claim the credit each year.

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses