



**INDIVIDUAL INCOME TAX  
CORPORATE FRANCHISE TAX  
INSURANCE PREMIUMS TAX  
Underutilized Building Conversion**

March 3, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 457 (Harder) As Proposed to be Amended (H0457A1)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
		(000's)		
General Fund	\$0	(\$11,000)	(\$22,700)	(\$36,500)

Effective beginning tax year 2026.

### **EXPLANATION OF THE BILL**

The bill would create 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, corporate franchise tax, or insurance gross premiums 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 2031.

### **REVENUE ANALYSIS DETAIL**

- The estimate is based on credits claimed under the South Carolina Abandoned Buildings Revitalization Act and recent large-scale building conversions in Minnesota.

## REVENUE ANALYSIS DETAIL (Cont.)

- The estimate assumes that the credit applies only to conversions of industrial or commercial properties.
- The South Carolina credit was enacted in 2013. From 2018 to 2022, about 329 credits were claimed annually with an average credit amount of \$45,060.
- The estimate adjusts the South Carolina credit amounts by the relative size of the construction industry in Minnesota compared to South Carolina. Minnesota's construction industry is about 137% of South Carolina's, based on industry data from the Bureau of Economic Analysis for 2019 through 2023. The Minnesota credit amounts are grown at about 6% per year based on the same BEA data.
- The South Carolina credit is capped at \$700,000 per taxpayer. Since the Minnesota bill has no maximum credit or credit limit, the estimate is increased by about \$14.4 million per year to account for large projects. This adjustment is based on the average reported cost of large-scale conversion projects that have taken place in Minnesota since 2021 and an office-to-residential conversion study released by The Saint Paul Downtown Alliance.
- 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 first year, 31% are expected to be issued in the second year, and 53% are expected to be issued in the third year.
- It is estimated that \$34.9 million in credit certificates will be allocated in tax year 2026, with the impact of those credits landing across the next three years depending on when conversion work is completed.
- It is assumed that all of the tax year 2026 impact will fall in fiscal year 2027. Tax year impacts are allocated 30% to the current fiscal year and 70% to the following year thereafter.
- The fiscal year impact will be about \$36.5 million by fiscal year 2029, and peak at \$39 million in fiscal year 2031.

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

Minnesota Department of Revenue  
Tax Research Division  
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