

117TH CONGRESS
1ST SESSION

S. 2511

To amend the Internal Revenue Code of 1986 to provide an investment credit for the conversion of office buildings into other uses.

IN THE SENATE OF THE UNITED STATES

JULY 28, 2021

Ms. STABENOW (for herself and Mr. PETERS) introduced the following bill;
which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide an investment credit for the conversion of office buildings into other uses.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Revitalizing Down-
5 towns Act”.

6 **SEC. 2. CREDIT FOR QUALIFIED OFFICE CONVERSION.**

7 (a) IN GENERAL.—Section 46 of the Internal Rev-
8 enue Code of 1986 is amended by striking “and” at the
9 end of paragraph (5), by striking the period at the end

1 of paragraph (6) and inserting “, and”, and by adding
2 at the end the following new paragraph:

3 “(7) the qualified office conversion credit.”.

4 (b) AMOUNT OF CREDIT.—Subpart E of part IV of
5 subchapter A of chapter 1 of the Internal Revenue Code
6 of 1986 is amended by inserting after section 48C the fol-
7 lowing new section:

8 **“SEC. 48D. QUALIFIED OFFICE CONVERSION CREDIT.**

9 “(a) IN GENERAL.—For purposes of section 46, the
10 qualified office conversion credit for any taxable year is
11 equal to 20 percent of the qualified conversion expendi-
12 tures with respect to a qualified converted building.

13 “(b) WHEN EXPENDITURES TAKEN INTO AC-
14 COUNT.—

15 “(1) IN GENERAL.—Qualified conversion ex-
16 penditures with respect to any qualified converted
17 building shall be taken into account for the taxable
18 year in which such qualified converted building is
19 placed in service.

20 “(2) COORDINATION WITH SUBSECTION (d).—

21 The amount which would (but for this subpara-
22 graph) be taken into account under subparagraph
23 (A) with respect to any qualified converted building
24 shall be reduced (but not below zero) by any amount
25 of qualified conversion expenditures taken into ac-

1 count under subsection (d) by the taxpayer or a
2 predecessor of the taxpayer (or, in the case of a sale
3 and leaseback described in section 50(a)(2)(C), by
4 the lessee), to the extent any amount so taken into
5 account has not been required to be recaptured
6 under section 50(a).

7 “(c) DEFINITIONS.—

8 “(1) QUALIFIED CONVERTED BUILDING.—

9 “(A) IN GENERAL.—The term ‘qualified
10 converted building’ means any building (and its
11 structural components) if—

12 “(i) prior to conversion, such building
13 was nonresidential real property (as de-
14 fined in section 168) which was leased, or
15 available for lease, to office tenants,

16 “(ii) such building has been substan-
17 tially converted from an office use to a res-
18 idential, retail, or other commercial use,

19 “(iii) in the case of conversion to a
20 residential use, such converted building
21 meets the requirements of subparagraph
22 (D),

23 “(iv) such building was initially placed
24 in service at least 25 years before the be-
25 ginning of the conversion, and

1 “(v) depreciation (or amortization in
2 lieu of depreciation) is allowable with re-
3 spect to such building.

4 “(B) SUBSTANTIALLY CONVERTED DE-
5 FINED.—

6 “(i) IN GENERAL.—For purposes of
7 paragraph (1)(A)(ii), a building shall be
8 treated as having been substantially con-
9 verted only if the qualified conversion ex-
10 penditures during the 24-month period se-
11 lected by the taxpayer (at the time and in
12 the manner prescribed by regulation) and
13 ending with or within the taxable year ex-
14 ceed the greater of—

15 “(I) the adjusted basis of such
16 building (and its structural compo-
17 nents), or

18 “(II) \$15,000.

19 The adjusted basis of the building (and its
20 structural components) shall be determined
21 as of the beginning of the 1st day of such
22 24-month period, or of the holding period
23 of the building, whichever is later. For
24 purposes of the preceding sentence, the de-
25 termination of the beginning of the holding

1 period shall be made without regard to any
2 reconstruction by the taxpayer in connec-
3 tion with the conversion.

4 “(ii) SPECIAL RULE FOR PHASED
5 CONVERSION.—In the case of any conver-
6 sion which may reasonably be expected to
7 be completed in phases set forth in archi-
8 tectural plans and specifications completed
9 before the conversion begins, clause (i)
10 shall be applied by substituting ‘60-month
11 period’ for ‘24-month period’.

12 “(iii) LESSEES.—The Secretary shall
13 prescribe by regulation rules for applying
14 this subparagraph to lessees.

15 “(C) RECONSTRUCTION.—Conversion in-
16 cludes reconstruction.

17 “(D) RESIDENTIAL CONVERSION REQUIRE-
18 MENTS.—

19 “(i) IN GENERAL.—A building meets
20 the requirements of this subparagraph if—

21 “(I) 20 percent or more of the
22 residential units are both rent-re-
23 stricted and occupied by individuals
24 whose income is 80 percent or less of
25 area median gross income, or

1 “(II) such building is subject to a
 2 written binding State or local agree-
 3 ment with respect to the provision or
 4 financing of affordable housing and
 5 such agreement is documented in such
 6 form and manner as the Secretary
 7 may provide.

8 “(ii) RENT AND INCOME LIMITA-
 9 TION.—For purposes of this subparagraph,
 10 rules similar to the rules of subsection (g)
 11 of section 42 shall apply to determine
 12 whether a unit is rent-restricted, treatment
 13 of units occupied by individuals whose in-
 14 comes rise above the limit, and the treat-
 15 ment of units where Federal rental assist-
 16 ance is reduced as tenant’s income in-
 17 creases.

18 “(2) QUALIFIED CONVERSION EXPENDITURES
 19 DEFINED.—

20 “(A) IN GENERAL.—For purposes of sub-
 21 section (a), the term ‘qualified conversion ex-
 22 penditures’ means any amount properly charge-
 23 able to capital account—

1 “(i) for property for which deprecia-
2 tion is allowable under section 168 and
3 which is—

4 “(I) nonresidential real property
5 (as defined in section 168),

6 “(II) residential rental property
7 (as defined in section 168), or

8 “(III) an addition or improve-
9 ment to property described in clause
10 (i) or (ii), and

11 “(ii) in connection with the conversion
12 of a qualified converted building.

13 “(B) CERTAIN EXPENDITURES NOT IN-
14 CLUDED.—The term ‘qualified conversion ex-
15 penditures’ does not include—

16 “(i) STRAIGHT LINE DEPRECIATION
17 MUST BE USED.—Any expenditure with re-
18 spect to which the taxpayer does not use
19 the straight line method over a recovery
20 period determined under subsection (e) or
21 (g) of section 168. The preceding sentence
22 shall not apply to any expenditure to the
23 extent the alternative depreciation system
24 of section 168(g) applies to such expendi-

1 ture by reason of subparagraph (B) or (C)
2 of section 168(g)(1).

3 “(ii) COST OF ACQUISITION.—The
4 cost of acquiring any building or interest
5 therein.

6 “(iii) ENLARGEMENTS.—Any expendi-
7 ture attributable to the enlargement of an
8 existing building.

9 “(iv) TAX-EXEMPT USE PROPERTY.—
10 Any expenditure in connection with the
11 conversion of a building which is allocable
12 to the portion of such property which is (or
13 may reasonably be expected to be) tax-ex-
14 empt use property (within the meaning of
15 section 168(h)), except that—

16 “(I) ‘50 percent’ shall be sub-
17 stituted for ‘35 percent’ in paragraph
18 (1)(B)(iii) thereof, and

19 “(II) an eligible educational insti-
20 tution (as defined in section
21 529(e)(5)) shall not be treated as a
22 tax-exempt entity.

23 This clause shall not apply for purposes of
24 determining whether a building has been
25 substantially converted.

1 “(v) EXPENDITURES OF LESSEE.—

2 Any expenditure of a lessee of a building
3 if, on the date the conversion is completed,
4 the remaining term of the lease (deter-
5 mined without regard to any renewal peri-
6 ods) is less than the recovery period deter-
7 mined under section 168(c).

8 “(d) PROGRESS EXPENDITURES.—

9 “(1) IN GENERAL.—In the case of any building
10 to which this subsection applies, except as provided
11 in paragraph (3)—

12 “(A) if such building is self-converted
13 property, any qualified conversion expenditure
14 with respect to such building shall be taken into
15 account for the taxable year for which such ex-
16 penditure is properly chargeable to capital ac-
17 count with respect to such building, and

18 “(B) if such building is not self-converted
19 property, any qualified conversion expenditure
20 with respect to such building shall be taken into
21 account for the taxable year in which paid.

22 “(2) PROPERTY TO WHICH SUBSECTION AP-
23 PLIES.—

1 “(A) IN GENERAL.—This subsection shall
2 apply to any building which is being converted
3 by or for the taxpayer if—

4 “(i) the normal conversion period for
5 such building is 2 years or more, and

6 “(ii) it is reasonable to expect that
7 such building will be a qualified converted
8 building in the hands of the taxpayer when
9 it is placed in service.

10 Clauses (i) and (ii) shall be applied on the basis
11 of facts known as of the close of the taxable
12 year of the taxpayer in which the conversion be-
13 gins (or, if later, at the close of the first taxable
14 year to which an election under this subsection
15 applies).

16 “(B) NORMAL CONVERSION PERIOD.—For
17 purposes of subparagraph (A), the term ‘normal
18 conversion period’ means the period reasonably
19 expected to be required for the conversion of
20 the building—

21 “(i) beginning with the date on which
22 physical work on the conversion begins (or,
23 if later, the first day of the first taxable
24 year to which an election under this sub-
25 section applies), and

1 “(ii) ending on the date on which it is
2 expected that the property will be available
3 for placing in service.

4 “(3) SPECIAL RULES FOR APPLYING PARA-
5 GRAPH (1).—For purposes of paragraph (1)—

6 “(A) COMPONENT PARTS, ETC.—Property
7 which is to be a component part of, or is other-
8 wise to be included in, any building to which
9 this subsection applies shall be taken into ac-
10 count—

11 “(i) at a time not earlier than the
12 time at which it becomes irrevocably de-
13 voted to use in the building, and

14 “(ii) as if (at the time referred to in
15 clause (i)) the taxpayer had expended an
16 amount equal to that portion of the cost to
17 the taxpayer of such component or other
18 property which, for purposes of this sub-
19 part, is properly chargeable (during such
20 taxable year) to capital account with re-
21 spect to such building.

22 “(B) CERTAIN BORROWING DIS-
23 REGARDED.—Any amount borrowed directly or
24 indirectly by the taxpayer from the person con-

1 verting the property for him shall not be treat-
2 ed as an amount expended for such conversion.

3 “(C) LIMITATION FOR BUILDINGS WHICH
4 ARE NOT SELF-CONVERTED.—

5 “(i) IN GENERAL.—In the case of a
6 building which is not self-converted, the
7 amount taken into account under para-
8 graph (1)(B) for any taxable year shall not
9 exceed the amount which represents the
10 portion of the overall cost to the taxpayer
11 of the conversion which is properly attrib-
12 utable to the portion of the conversion
13 which is completed during such taxable
14 year.

15 “(ii) CARRYOVER OF CERTAIN
16 AMOUNTS.—In the case of a building which
17 is not a self-converted building, if for the
18 taxable year—

19 “(I) the amount which (but for
20 clause (i)) would have been taken into
21 account under paragraph (1)(B) ex-
22 ceeds the limitation of clause (i), then
23 the amount of such excess shall be
24 taken into account under paragraph

1 (1)(B) for the succeeding taxable
2 year, or

3 “(II) the limitation of clause (i)
4 exceeds the amount taken into ac-
5 count under paragraph (1)(B), then
6 the amount of such excess shall in-
7 crease the limitation of clause (i) for
8 the succeeding taxable year.

9 “(D) DETERMINATION OF PERCENTAGE OF
10 COMPLETION.—The determination under sub-
11 paragraph (C)(i) of the portion of the overall
12 cost to the taxpayer of the conversion which is
13 properly attributable to conversion completed
14 during any taxable year shall be made, under
15 regulations prescribed by the Secretary, on the
16 basis of engineering or architectural estimates
17 or on the basis of cost accounting records. Un-
18 less the taxpayer establishes otherwise by clear
19 and convincing evidence, the conversion shall be
20 deemed to be completed not more rapidly than
21 ratably over the normal conversion period.

22 “(E) NO PROGRESS EXPENDITURES FOR
23 CERTAIN PRIOR PERIODS.—No qualified conver-
24 sion expenditures shall be taken into account
25 under this subsection for any period before the

1 first day of the first taxable year to which an
2 election under this subsection applies.

3 “(F) NO PROGRESS EXPENDITURES FOR
4 PROPERTY FOR YEAR IT IS PLACED IN SERVICE,
5 ETC.—In the case of any building, no qualified
6 conversion expenditures shall be taken into ac-
7 count under this subsection for the earlier of—

8 “(i) the taxable year in which the
9 building is placed in service, or

10 “(ii) the first taxable year for which
11 recapture is required under section
12 50(a)(2) with respect to such property,

13 or for any taxable year thereafter.

14 “(4) SELF-CONVERTED BUILDING.—For pur-
15 poses of this subsection, the term ‘self-converted
16 building’ means any building if it is reasonable to
17 believe that more than half of the qualified conver-
18 sion expenditures for such building will be made di-
19 rectly by the taxpayer.

20 “(5) ELECTION.—This subsection shall apply to
21 any taxpayer only if such taxpayer has made an
22 election under this paragraph. Such an election shall
23 apply to the taxable year for which made and all
24 subsequent taxable years. Such an election, once

1 made, may be revoked only with the consent of the
2 Secretary.

3 “(e) DENIAL OF DOUBLE BENEFIT.—A credit shall
4 not be allowed under this section for any qualified conver-
5 sion expenditure for which a credit is allowed under sec-
6 tion 42 or 47.”.

7 (c) CONFORMING AMENDMENTS.—

8 (1) Section 49(a)(1)(C) of the Internal Revenue
9 Code of 1986 is amended by striking “and” at the
10 end of clause (iv), by striking the period at the end
11 of clause (v) and inserting “, and”, and by adding
12 after clause (v) the following new clause:

13 “(vi) the portion of the basis of any
14 qualified converted property attributable to
15 qualified conversion expenditures under
16 section 48D.”.

17 (2) Section 50(a)(2)(E) of such Code is amend-
18 ed by striking “or 48C(b)(2)” and inserting
19 “48C(b)(2), or 48D(d)”.

20 (3) Section 50(b)(2) of such Code is amended
21 by striking “and” at the end of subparagraph (C),
22 by striking the period at the end of subparagraph
23 (D) and inserting “; and”, and by adding after sub-
24 paragraph (D) the following new subparagraph:

1 “(E) a qualified converted building to the
2 extent of that portion of the basis which is at-
3 tributable to qualified conversion expendi-
4 tures.”.

5 (4) Section 50(b)(3) is amended by inserting “,
6 or, solely with respect to the qualified office conver-
7 sion credit, an eligible educational institution (as de-
8 fined in section 529(e)(5))” after “section 521”.

9 (5) The table of sections for subpart E of part
10 IV of subchapter A of chapter 1 of such Code is
11 amended by inserting after the item relating to sec-
12 tion 48C the following new item:

“Sec. 48D. Qualified office conversion credit.”.

13 (d) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to qualified conversion expendi-
15 tures incurred after the date of enactment in taxable years
16 ending after such date.

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