117TH CONGRESS
1ST SESSION
H. R. 4759

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

IN THE HOUSE OF REPRESENTATIVES

JULY 28, 2021

Mr. GOMEZ (for himself, Mr. LARSON of Connecticut, and Mr. KILDEE) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Revitalizing Downtowns Act”.

SEC. 2. CREDIT FOR QUALIFIED OFFICE CONVERSION.

(a) In General.—Section 46 of the Internal Revenue Code of 1986 is amended by striking “and” at the end of paragraph (5), by striking the period at the end
of paragraph (6) and inserting “, and”, and by adding at the end the following new paragraph:

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

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

“SEC. 48D. QUALIFIED OFFICE CONVERSION CREDIT.

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

“(b) WHEN EXPENDITURES TAKEN INTO ACCOUNT.—

“(1) IN GENERAL.—Qualified conversion expenditures with respect to any qualified converted building shall be taken into account for the taxable year in which such qualified converted building is placed in service.

“(2) COORDINATION WITH SUBSECTION (d).—The amount which would (but for this subpara-graph) be taken into account under subparagraph (A) with respect to any qualified converted building shall be reduced (but not below zero) by any amount of qualified conversion expenditures taken into ac-
count under subsection (d) by the taxpayer or a predecessor of the taxpayer (or, in the case of a sale and leaseback described in section 50(a)(2)(C), by the lessee), to the extent any amount so taken into account has not been required to be recaptured under section 50(a).

“(c) Definitions.—

“(1) Qualified converted building.—

“(A) In general.—The term ‘qualified converted building’ means any building (and its structural components) if—

“(i) prior to conversion, such building was nonresidential real property (as defined in section 168) which was leased, or available for lease, to office tenants,

“(ii) such building has been substantially converted from an office use to a residential, retail, or other commercial use,

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

“(iv) such building was initially placed in service at least 25 years before the beginning of the conversion, and
“(v) depreciation (or amortization in lieu of depreciation) is allowable with respect to such building.

“(B) Substantially converted defined.—

“(i) In general.—For purposes of paragraph (1)(A)(ii), a building shall be treated as having been substantially converted only if the qualified conversion expenditures during the 24-month period selected by the taxpayer (at the time and in the manner prescribed by regulation) and ending with or within the taxable year exceed the greater of—

“(I) the adjusted basis of such building (and its structural components), or

“(II) $15,000.

The adjusted basis of the building (and its structural components) shall be determined as of the beginning of the 1st day of such 24-month period, or of the holding period of the building, whichever is later. For purposes of the preceding sentence, the determination of the beginning of the holding
period shall be made without regard to any
reconstruction by the taxpayer in connec-
tion with the conversion.

“(ii) Special rule for phased
conversion.—In the case of any conver-
sion which may reasonably be expected to
be completed in phases set forth in archi-
tectural plans and specifications completed
before the conversion begins, clause (i)
shall be applied by substituting ‘60-month
period’ for ‘24-month period’.

“(iii) Lessees.—The Secretary shall
prescribe by regulation rules for applying
this subparagraph to lessees.

“(C) Reconstruction.—Conversion in-
cludes reconstruction.

“(D) Residential conversion require-
ments.—

“(i) In general.—A building meets
the requirements of this subparagraph if—

“(I) 20 percent or more of the
residential units are both rent-re-
stricted and occupied by individuals
whose income is 80 percent or less of
area median gross income, or
“(II) such building is subject to a written binding State or local agreement with respect to the provision or financing of affordable housing and such agreement is documented in such form and manner as the Secretary may provide.

“(ii) Rent and Income Limitation.—For purposes of this subparagraph, rules similar to the rules of subsection (g) of section 42 shall apply to determine whether a unit is rent-restricted, treatment of units occupied by individuals whose incomes rise above the limit, and the treatment of units where Federal rental assistance is reduced as tenant's income increases.

“(2) Qualified Conversion Expenditures Defined.—

“(A) In general.—For purposes of subsection (a), the term ‘qualified conversion expenditures’ means any amount properly chargeable to capital account—
“(i) for property for which deprecia-
tion is allowable under section 168 and
which is—

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

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

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

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

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

“(i) STRAIGHT LINE DEPRECIATION
MUST BE USED.—Any expenditure with re-
spect to which the taxpayer does not use
the straight line method over a recovery
period determined under subsection (c) or
(g) of section 168. The preceding sentence
shall not apply to any expenditure to the
extent the alternative depreciation system
of section 168(g) applies to such expendi-
ture by reason of subparagraph (B) or (C) of section 168(g)(1).

“(ii) **Cost of Acquisition.**—The cost of acquiring any building or interest therein.

“(iii) **Enlargements.**—Any expenditure attributable to the enlargement of an existing building.

“(iv) **Tax-exempt Use Property.**—Any expenditure in connection with the conversion of a building which is allocable to the portion of such property which is (or may reasonably be expected to be) tax-exempt use property (within the meaning of section 168(h)), except that—

“(I) ‘50 percent’ shall be substituted for ‘35 percent’ in paragraph (1)(B)(iii) thereof, and

“(II) an eligible educational institution (as defined in section 529(e)(5)) shall not be treated as a tax-exempt entity.

This clause shall not apply for purposes of determining whether a building has been substantially converted.
“(v) EXPENDITURES OF LESSEE.—

Any expenditure of a lessee of a building if, on the date the conversion is completed, the remaining term of the lease (determined without regard to any renewal periods) is less than the recovery period determined under section 168(c).

“(d) PROGRESS EXPENDITURES.—

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

“(A) if such building is self-converted property, any qualified conversion expenditure with respect to such building shall be taken into account for the taxable year for which such expenditure is properly chargeable to capital account with respect to such building, and

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

“(2) PROPERTY TO WHICH SUBSECTION APPLIES.—
“(A) IN GENERAL.—This subsection shall apply to any building which is being converted by or for the taxpayer if—

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

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

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

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

“(i) beginning with the date on which physical work on the conversion begins (or, if later, the first day of the first taxable year to which an election under this subsection applies), and
“(ii) ending on the date on which it is expected that the property will be available for placing in service.

“(3) Special rules for applying paragraph (1).—For purposes of paragraph (1)—

“(A) Component parts, etc.—Property which is to be a component part of, or is otherwise to be included in, any building to which this subsection applies shall be taken into account—

“(i) at a time not earlier than the time at which it becomes irrevocably devoted to use in the building, and

“(ii) as if (at the time referred to in clause (i)) the taxpayer had expended an amount equal to that portion of the cost to the taxpayer of such component or other property which, for purposes of this subpart, is properly chargeable (during such taxable year) to capital account with respect to such building.

“(B) Certain borrowing disregarded.—Any amount borrowed directly or indirectly by the taxpayer from the person con-
verting the property for him shall not be treated as an amount expended for such conversion.

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

“(i) IN GENERAL.—In the case of a building which is not self-converted, the amount taken into account under paragraph (1)(B) for any taxable year shall not exceed the amount which represents the portion of the overall cost to the taxpayer of the conversion which is properly attributable to the portion of the conversion which is completed during such taxable year.

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

“(I) the amount which (but for clause (i)) would have been taken into account under paragraph (1)(B) exceeds the limitation of clause (i), then the amount of such excess shall be taken into account under paragraph
(1)(B) for the succeeding taxable year, or

“(II) the limitation of clause (i) exceeds the amount taken into account under paragraph (1)(B), then the amount of such excess shall increase the limitation of clause (i) for the succeeding taxable year.

“(D) DETERMINATION OF PERCENTAGE OF COMPLETION.—The determination under subparagraph (C)(i) of the portion of the overall cost to the taxpayer of the conversion which is properly attributable to conversion completed during any taxable year shall be made, under regulations prescribed by the Secretary, on the basis of engineering or architectural estimates or on the basis of cost accounting records. Unless the taxpayer establishes otherwise by clear and convincing evidence, the conversion shall be deemed to be completed not more rapidly than ratably over the normal conversion period.

“(E) NO PROGRESS EXPENDITURES FOR CERTAIN PRIOR PERIODS.—No qualified conversion expenditures shall be taken into account under this subsection for any period before the
first day of the first taxable year to which an
election under this subsection applies.

“(F) No progress expenditures for
property for year it is placed in service,
etc.—In the case of any building, no qualified
conversion expenditures shall be taken into ac-
count under this subsection for the earlier of—

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

“(ii) the first taxable year for which
recapture is required under section
50(a)(2) with respect to such property,
or for any taxable year thereafter.

“(4) Self-converted building.—For pur-
poses of this subsection, the term ‘self-converted
building’ means any building if it is reasonable to
believe that more than half of the qualified con-
version expenditures for such building will be made di-
rectly by the taxpayer.

“(5) Election.—This subsection shall apply to
any taxpayer only if such taxpayer has made an
election under this paragraph. Such an election shall
apply to the taxable year for which made and all
subsequent taxable years. Such an election, once
made, may be revoked only with the consent of the Secretary.

“(e) Denial of Double Benefit.—A credit shall not be allowed under this section for any qualified conversion expenditure for which a credit is allowed under section 42 or 47.”.

(e) Conforming Amendments.—

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

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

(2) Section 50(a)(2)(E) of such Code is amended by striking “or 48C(b)(2)” and inserting “48C(b)(2), or 48D(d)”.

(3) Section 50(b)(2) of such Code is amended by striking “and” at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting “; and”, and by adding after subparagraph (D) the following new subparagraph:
“(E) a qualified converted building to the extent of that portion of the basis which is attributable to qualified conversion expenditures.”.

(4) Section 50(b)(3) is amended by inserting “, or, solely with respect to the qualified office conversion credit, an eligible educational institution (as defined in section 529(e)(5))” after “section 521”.

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

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

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to qualified conversion expenditures incurred after the date of enactment in taxable years ending after such date.