

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.

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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

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## 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.

○