

118TH CONGRESS
1ST SESSION

H. R. 419

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

JANUARY 20, 2023

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.

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 redesignating paragraph
9 (7) as paragraph (8), by redesignating the paragraph (6)

1 relating to the advanced manufacturing investment credits
2 as paragraph (7), by striking “and” at the end of para-
3 graph (7) (as so redesignated), by striking the period at
4 the end of paragraph (8) (as so redesignated) and insert-
5 ing “, and”, and by adding at the end the following new
6 paragraph:

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

8 (b) AMOUNT OF CREDIT.—Subpart E of part IV of
9 subchapter A of chapter 1 of the Internal Revenue Code
10 of 1986 is amended by inserting after section 48E the fol-
11 lowing new section:

12 **“SEC. 48F. QUALIFIED OFFICE CONVERSION CREDIT.**

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

17 “(b) WHEN EXPENDITURES TAKEN INTO AC-
18 COUNT.—

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

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

25 The amount which would (but for this subpara-

1 graph) be taken into account under subparagraph
2 (A) with respect to any qualified converted building
3 shall be reduced (but not below zero) by any amount
4 of qualified conversion expenditures taken into ac-
5 count under subsection (d) by the taxpayer or a
6 predecessor of the taxpayer (or, in the case of a sale
7 and leaseback described in section 50(a)(2)(C), by
8 the lessee), to the extent any amount so taken into
9 account has not been required to be recaptured
10 under section 50(a).

11 “(c) DEFINITIONS.—

12 “(1) QUALIFIED CONVERTED BUILDING.—

13 “(A) IN GENERAL.—The term ‘qualified
14 converted building’ means any building (and its
15 structural components) if—

16 “(i) prior to conversion, such building
17 was nonresidential real property (as de-
18 fined in section 168) which was leased, or
19 available for lease, to office tenants,

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

23 “(iii) in the case of conversion to a
24 residential use, such converted building

1 meets the requirements of subparagraph
2 (D),

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

6 “(v) depreciation (or amortization in
7 lieu of depreciation) is allowable with re-
8 spect to such building.

9 “(B) SUBSTANTIALLY CONVERTED DE-
10 FINED.—

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

20 “(I) the adjusted basis of such
21 building (and its structural compo-
22 nents), or

23 “(II) \$15,000.

24 The adjusted basis of the building (and its
25 structural components) shall be determined

1 as of the beginning of the 1st day of such
2 24-month period, or of the holding period
3 of the building, whichever is later. For
4 purposes of the preceding sentence, the de-
5 termination of the beginning of the holding
6 period shall be made without regard to any
7 reconstruction by the taxpayer in connec-
8 tion with the conversion.

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

17 “(iii) LESSEES.—The Secretary shall
18 prescribe by regulation rules for applying
19 this subparagraph to lessees.

20 “(C) RECONSTRUCTION.—Conversion in-
21 cludes reconstruction.

22 “(D) RESIDENTIAL CONVERSION REQUIRE-
23 MENTS.—

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

1 “(I) 20 percent or more of the
2 residential units are both rent-re-
3 stricted and occupied by individuals
4 whose income is 80 percent or less of
5 area median gross income, or

6 “(II) such building is subject to a
7 written binding State or local agree-
8 ment with respect to the provision or
9 financing of affordable housing and
10 such agreement is documented in such
11 form and manner as the Secretary
12 may provide.

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

23 “(2) QUALIFIED CONVERSION EXPENDITURES
24 DEFINED.—

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

5 “(i) for property for which deprecia-
6 tion is allowable under section 168 and
7 which is—

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

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

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

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

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

20 “(i) STRAIGHT LINE DEPRECIATION
21 MUST BE USED.—Any expenditure with re-
22 spect to which the taxpayer does not use
23 the straight line method over a recovery
24 period determined under subsection (c) or
25 (g) of section 168. The preceding sentence

1 shall not apply to any expenditure to the
2 extent the alternative depreciation system
3 of section 168(g) applies to such expendi-
4 ture by reason of subparagraph (B) or (C)
5 of section 168(g)(1).

6 “(ii) COST OF ACQUISITION.—The
7 cost of acquiring any building or interest
8 therein.

9 “(iii) ENLARGEMENTS.—Any expendi-
10 ture attributable to the enlargement of an
11 existing building.

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

19 “(I) ‘50 percent’ shall be sub-
20 stituted for ‘35 percent’ in paragraph
21 (1)(B)(iii) thereof, and

22 “(II) an eligible educational insti-
23 tution (as defined in section
24 529(e)(5)) shall not be treated as a
25 tax-exempt entity.

1 This clause shall not apply for purposes of
2 determining whether a building has been
3 substantially converted.

4 “(v) EXPENDITURES OF LESSEE.—
5 Any expenditure of a lessee of a building
6 if, on the date the conversion is completed,
7 the remaining term of the lease (deter-
8 mined without regard to any renewal peri-
9 ods) is less than the recovery period deter-
10 mined under section 168(c).

11 “(d) PROGRESS EXPENDITURES.—

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

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

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

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

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

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

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

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

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

23 “(i) beginning with the date on which
24 physical work on the conversion begins (or,
25 if later, the first day of the first taxable

1 year to which an election under this sub-
2 section applies), and

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

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

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

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

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

24 “(B) CERTAIN BORROWING DIS-
25 REGARDED.—Any amount borrowed directly or

1 indirectly by the taxpayer from the person con-
2 verting the property for him shall not be treat-
3 ed as an amount expended for such conversion.

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

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

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

20 “(I) the amount which (but for
21 clause (i)) would have been taken into
22 account under paragraph (1)(B) ex-
23 ceeds the limitation of clause (i), then
24 the amount of such excess shall be
25 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 (vii), by striking the period at the end
11 of clause (viii) and inserting “, and”, and by adding
12 after clause (viii) the following new clause:

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

17 (2) Section 50(a)(2)(E) of such Code is amend-
18 ed by striking “or 48E(e)” and inserting “48E(e),
19 or 48F(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 48E the following new item:

“Sec. 48F. 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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