General Assembly **Substitute Bill No. 1263**

***January Session, 2025***

* SB01263HSGFIN031025 *

***AN ACT CONCERNING TAX CREDITS FOR THE CONVERSION OF COMMERCIAL PROPERTIES.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective July 1, 2025, and applicable to taxable years commencing on and after July 1, 2025*) (a) As used in this section:

(1) "Affordable housing" has the same meaning as provided in section 8-39a of the general statutes;

(2) "Commercial building" means a structure primarily designed or used for nonresidential purposes, including, but not limited to, hotels, retail space, office space or an industrial building;

(3) "Commissioner" means the Commissioner of Housing;

(4) "Conversion plan" means any construction plan and specifications for the proposed conversion of a commercial building into a residential development that contains sufficient detail to enable the commissioner to evaluate compliance with the standards developed pursuant to subsections (c) and (k) of this section;

(5) "Dwelling unit" has the same meaning as provided in section 47a-1 of the general statutes;

(6) "Industrial building" means a structure that is used primarily for industrial activity and that is generally not open to the public, including but not limited to, warehouses, factories and storage facilities;

(7) "Nonprofit corporation" means a nonprofit corporation incorporated pursuant to chapter 602 of the general statutes or any predecessor statutes thereto, and having as one of its purposes the construction, conversion, ownership or operation of housing;

(8) "Owner" means (A) any taxpayer filing a state of Connecticut tax return who possesses title to a commercial building, or prospective title in the form of a purchase agreement or option to purchase a commercial building to be converted into a residential development, or (B) a nonprofit corporation that possesses such title or prospective title;

(9) "Qualified conversion expenditures" means any costs incurred for the physical construction involved in the conversion of a commercial building into a residential development. "Qualified conversion expenditures" does not include: (A) The owner's personal labor, (B) the cost of site improvements, unless to provide building access to persons with disabilities, (C) the cost of a new addition, except as may be required to comply with any provision of the State Building Code, State Fire Prevention Code or the State Fire Safety Code, (D) any cost associated with the conversion of an outbuilding, unless such building contains one or more dwelling units, and (E) any nonconstruction cost such as architectural fees, legal fees and financing fees; and

(10) "Residential development" means a structure that contains one or more dwelling units.

(b) Not later than January 1, 2026, the Commissioner of Housing shall establish a program to administer a system of tax credit vouchers within the resources, requirements and purposes of this section for owners converting commercial buildings into residential developments or taxpayers making contributions that are qualified conversion expenditures. Any owner eligible to apply for a tax credit voucher pursuant to this section shall be eligible for such voucher in an amount equal to ten per cent of the total qualified conversion expenditure.

(c) Not later than January 1, 2026, the commissioner shall develop standards for the approval of tax credit vouchers for the conversion of commercial buildings into residential developments for which a tax credit voucher is sought. Any such standards shall take into account whether such conversion will create or preserve units for affordable housing. The commissioner shall post such regulations on the Department of Housing's Internet web site.

(d) Prior to beginning any conversion work on a commercial building for which an owner will seek a tax credit voucher pursuant to this section, such owner shall submit to the commissioner (1) a conversion plan for a determination of whether such plan meets any standards developed pursuant to subsections (c) and (k) of this section, (2) an estimate of the qualified conversion expenditures made, and (3) any other information prescribed by the commissioner. Not later than sixty days after receipt of such plan, estimate and other information, the commissioner shall determine whether such plan conforms to the standards developed pursuant to subsections (c) and (k) of this section.

(e) If the commissioner certifies that the conversion plan conforms to the standards developed pursuant to subsections (c) and (k) of this section, the commissioner shall reserve for the benefit of the owner an allocation for a tax credit equivalent to ten per cent of the projected qualified conversion expenditures.

(f) Following the completion of the conversion of a commercial building into a residential development, the owner shall notify the commissioner that such conversion has been completed. The owner shall provide the commissioner with documentation of any work performed on the commercial building and shall certify the cost incurred in converting such building into a residential development. The commissioner shall review such conversion work and verify its compliance with the conversion plan. Following such verification, the commissioner shall issue a tax credit voucher to either the owner converting the commercial building or to the taxpayer named by the owner as contributing to the conversion. The tax credit voucher shall be in an amount equivalent to the lesser of (1) the tax credit reserved upon certification of the conversion plan pursuant to subsection (e) of this section, or (2) ten per cent of the actual qualified conversion expenditures. In order to obtain a credit against any state tax due that is specified in subsection (h) of this section, the holder of the tax credit voucher shall file the voucher with the holder's state tax return.

(g) The owner of a commercial building converted into a residential development shall not be eligible for a tax credit voucher pursuant to subsections (f) and (h) of this section, unless the owner incurs qualified conversion expenditures exceeding fifteen thousand dollars.

(h) (1) The Commissioner of Revenue Services shall grant a credit against the tax imposed pursuant to chapter 208a or 229 of the general statutes, as applicable, in accordance with the following:

(A) (i) For a taxpayer described in subparagraph (A) of subdivision (8) of subsection (a) of this section holding a tax credit voucher issued on or after January 1, 2026, pursuant to subsections (b) to (g), inclusive, of this section, against the tax imposed pursuant to chapter 229 of the general statutes in the amount specified in the tax credit voucher.

(ii) If the amount of the tax credit voucher exceeds the taxpayer's liability for the tax imposed pursuant to chapter 229 of the general statutes, the Commissioner of Revenue Services shall treat such excess as an overpayment and, except as provided in section 12-739 or 12-742 of the general statutes, shall refund the amount of such excess, without interest, to the taxpayer; and

(B) (i) For an owner that is a nonprofit corporation holding a tax credit voucher issued on or after January 1, 2026, under subsections (b) to (g), inclusive, of this section, against the tax due pursuant to chapter 208a of the general statutes in the amount specified in the tax credit voucher.

(ii) Any unused portion of such credit pursuant to this subparagraph may be carried forward to any or all of the four income years following the year in which the tax credit voucher is issued.

(2) The Commissioner of Housing shall provide a copy of the voucher to the Commissioner of Revenue Services upon the request of the Commissioner of Revenue Services.

(i) A credit issued pursuant to this section shall not exceed thirty thousand dollars per dwelling unit for a commercial building converted into a residential development for an owner that is not a nonprofit corporation or not exceed fifty thousand dollars per such dwelling unit for an owner that is a nonprofit corporation.

(j) The aggregate amount of all tax credits that may be reserved by the Commissioner of Housing upon certification of conversion plans pursuant to subsections (b) to (d), inclusive, of this section shall not exceed three million dollars in any one fiscal year.

(k) The Commissioner of Housing may, in consultation with the Commissioner of Revenue Services, adopt regulations in accordance with the provisions of chapter 54 of the general statutes to carry out the purposes of this section.

| This act shall take effect as follows and shall amend the following sections: | | |
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| Section 1 | *July 1, 2025, and applicable to taxable years commencing on and after July 1, 2025* | New section |

***Statement of Legislative Commissioners:***
Throughout the bill, "under" and "under the provisions of" were changed to "pursuant to" for consistency of language.

**HSG** *Joint Favorable Subst. C/R* FIN