

# REAL ESTATE CONVEYANCE TAX AND CONTROLLING INTEREST TRANSFER TAX

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Prepared for the Connecticut State Tax Panel

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# Agenda

- Imposition of Real Estate Conveyance and Controlling Interest Transfer Taxes
  - Purpose of such taxes
  - Extend that they have been adopted in the US
- Drivers of revenues
- Connecticut's revenue experience
- Options for consideration by the panel

# Transfer Taxes...

- Adopted by states, patterned after Federal Documentary Stamp Tax when it was repealed
- Imposed only when real estate is sold or transferred
- Are based on sale price
- Provide information for property tax administration to local and state governments

# Transfer Taxes Used in 35 States

- Used in 35 states in some combination of state, mandated local, optional local taxes
- Wide range of rates
  - In 14 states maximum rates less than 0.5%
    - Ohio: all county 0.1% +0.3% option
    - California: County and city 0.11% except some charter cities like SF
    - Minnesota: 0.33%
  - States over 1% often only in selected jurisdictions
    - Washington State: state rate 1.28% with optional local rates up to a combined rate 2.78% in San Juan County
    - California: SF under \$100,000 0.5%; max rate: 2.50% over \$10 million;  
LA 0.56% (city and county)
    - Florida: Miami-Dade 1.05% non residential; otherwise statewide rate: 0.7%

# Transfer Tax is Like Other Revenue Sources, Only Different

- Like Property tax
  - Ad valorem
  - Local revenue
  - But Property Tax is annual tax with locally set rates
  - In Connecticut Local Transfer Tax rate set by state
- Like Deed Registration Fee
  - Rates set by state
  - Paid to town clerk upon registering documents
  - But Registration Fee is a flat or per-page charge
  - In Connecticut revenue divided between local and state

# Connecticut's Real Estate Conveyance Tax

- Initially enacted as local tax patterned after Federal Stamp Tax
- Uniform flat rate equivalent to repealed federal rate
  - 55 cents for each \$500 value a.k.a. \$1.10 per \$1,000 or 0.11%
- Local tax paid by seller to town clerk when deed is registered
- Local tax – local revenue

# State Conveyance Tax Added

- Enacted 1983 with flat 0.5%, rate higher than local
- Combined rates collected by town clerk when deed is registered
  - State revenues go to state
  - Local revenues stay local
- 1989 State rate raised rates for certain types, introduced marginal rates for homes
  - Two tiered rates based on use and value
    - Unimproved land, homes under \$800,000, other residential properties remained at 0.5%
    - Non-residential property and home value over \$800,000, rate was increased to 1%
  - Added Controlling Interest Transfer Tax

# Controlling Interest Transfer Tax

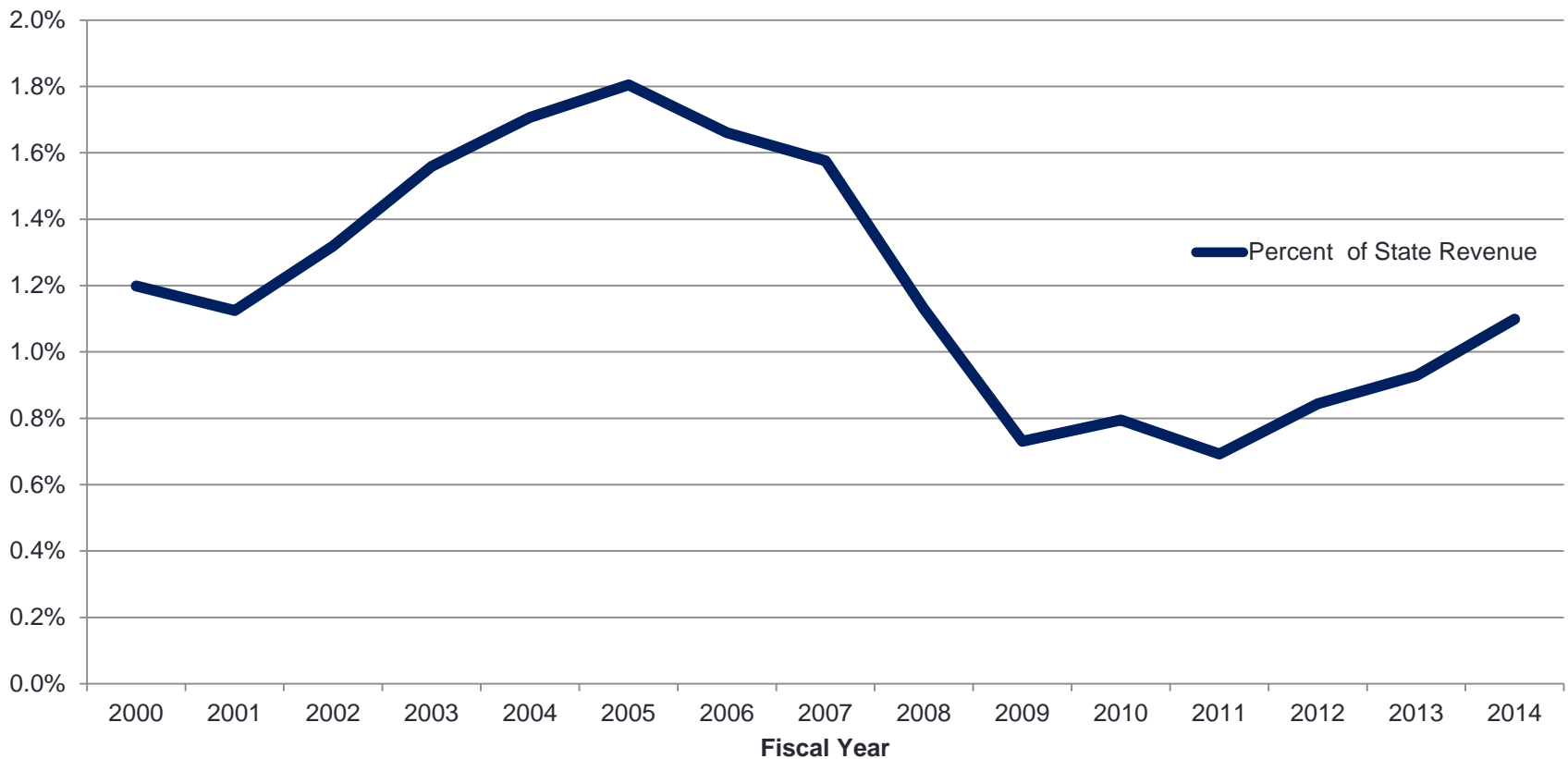
- Address the transfer of ownership interest in an entity that owns real estate
- Imposed when property is transferred not by deed but by transferring entity with Connecticut property
- Complements Real Estate Conveyance tax so that the structure of the transaction does not matter.
- Rate of 1.11% set at combined maximum state rate and local rate at the time tax was enacted
  - 1% state rate
  - 0.11% local rate
- All revenues are state revenues
- Collected at state, not at the local level
- By nature, can be complex transactions, audited by state



# Importance of Transfer Taxes Limited

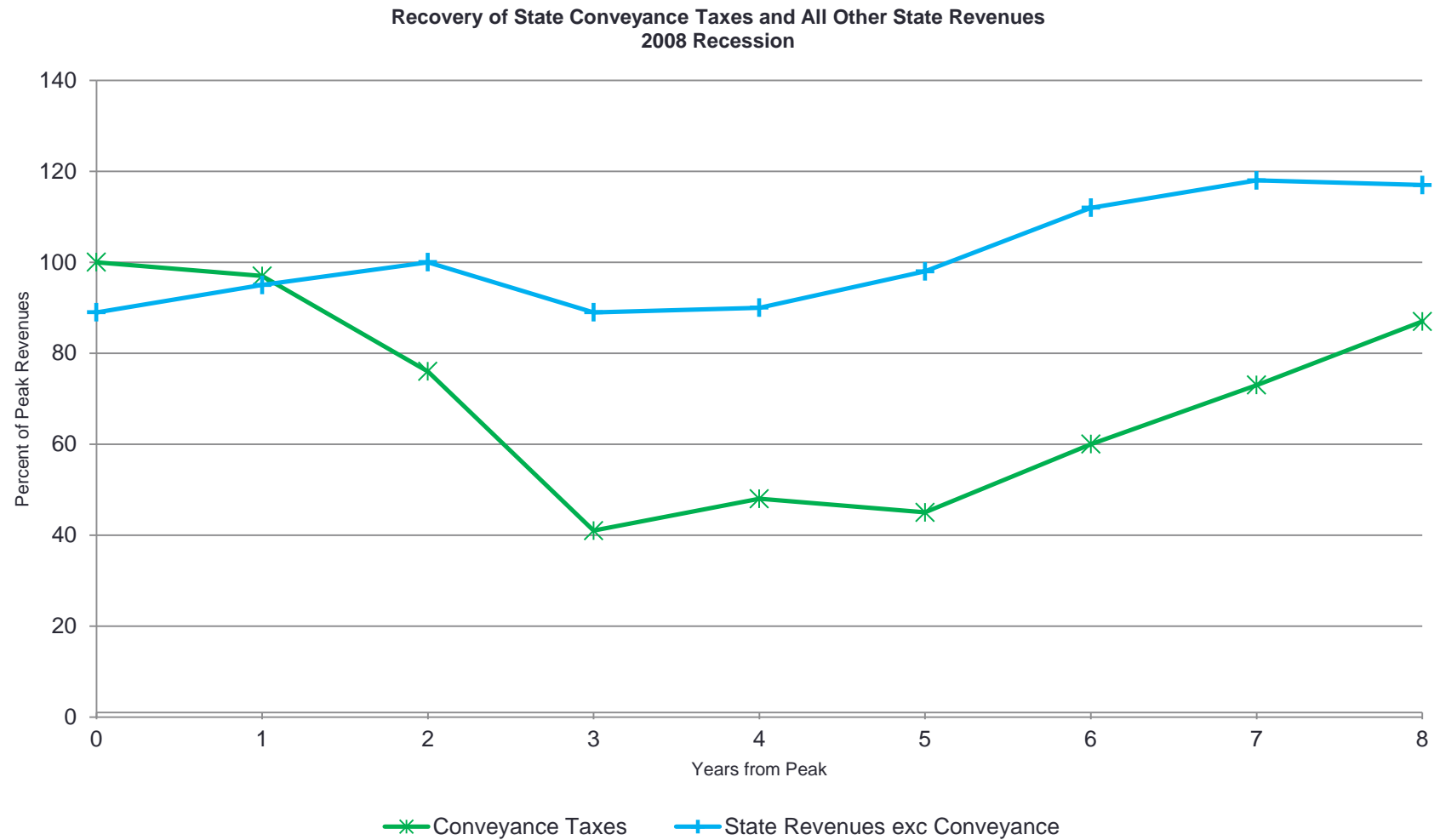
## Transfer Tax Revenues as Percent of State Revenues

2000-2014



Source: DRS Annual Reports

# Conveyance Taxes are Slow to Recover



# Drivers of Conveyance Revenues

- Tax Structure
  - Tax rates
  - Exempt Transactions
- Real Estate Market
  - Sales price
  - Frequency or Number of transactions

# Current Rates

- Local rates raised and made permanent at 0.25%
- 18 Targeted Investment Communities have optional additional rate, up to 0.25%
- State rates raised to 0.75% and 1.25%
  - Lower rate: Unimproved property, residential, homes less than \$800,000
  - Higher rate: Amount of residential over \$800,000 and all non-residential or unimproved property
- Controlling Interest rate unchanged

# Broad Range of Exempt Transactions

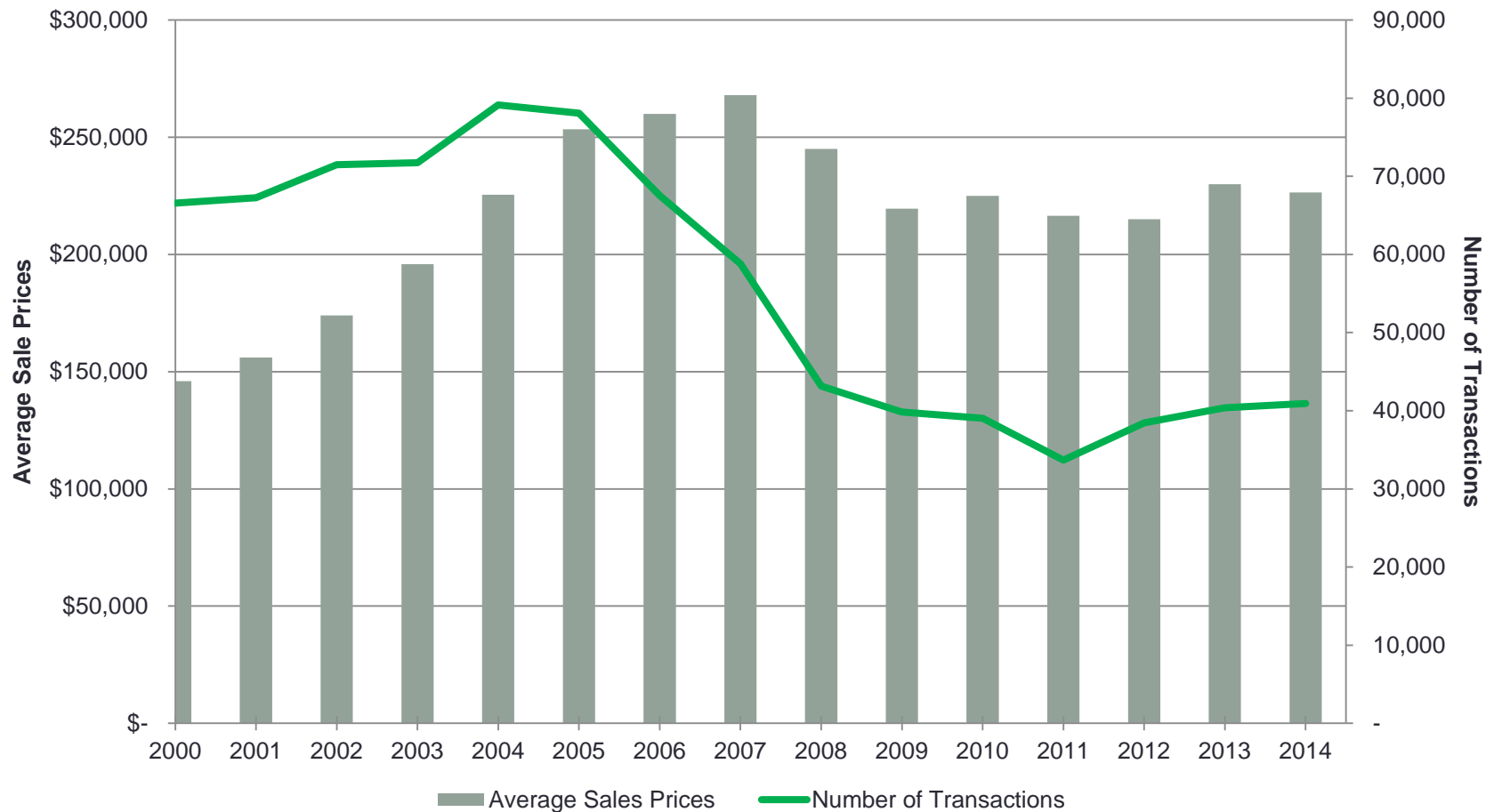
- Four general categories
- General
  - De minimis amount, but higher than many other places
  - Similar exemptions such as between government agencies
  - Bona fide gifts
- Corporation Transactions
  - To prevent double taxation between Conveyance and Controlling Interest
- Family Transactions
- Economic Hardship
  - Under conditions such as foreclosure, short sale
  - Not generally used in other states

# Transfer Taxes in Neighboring States

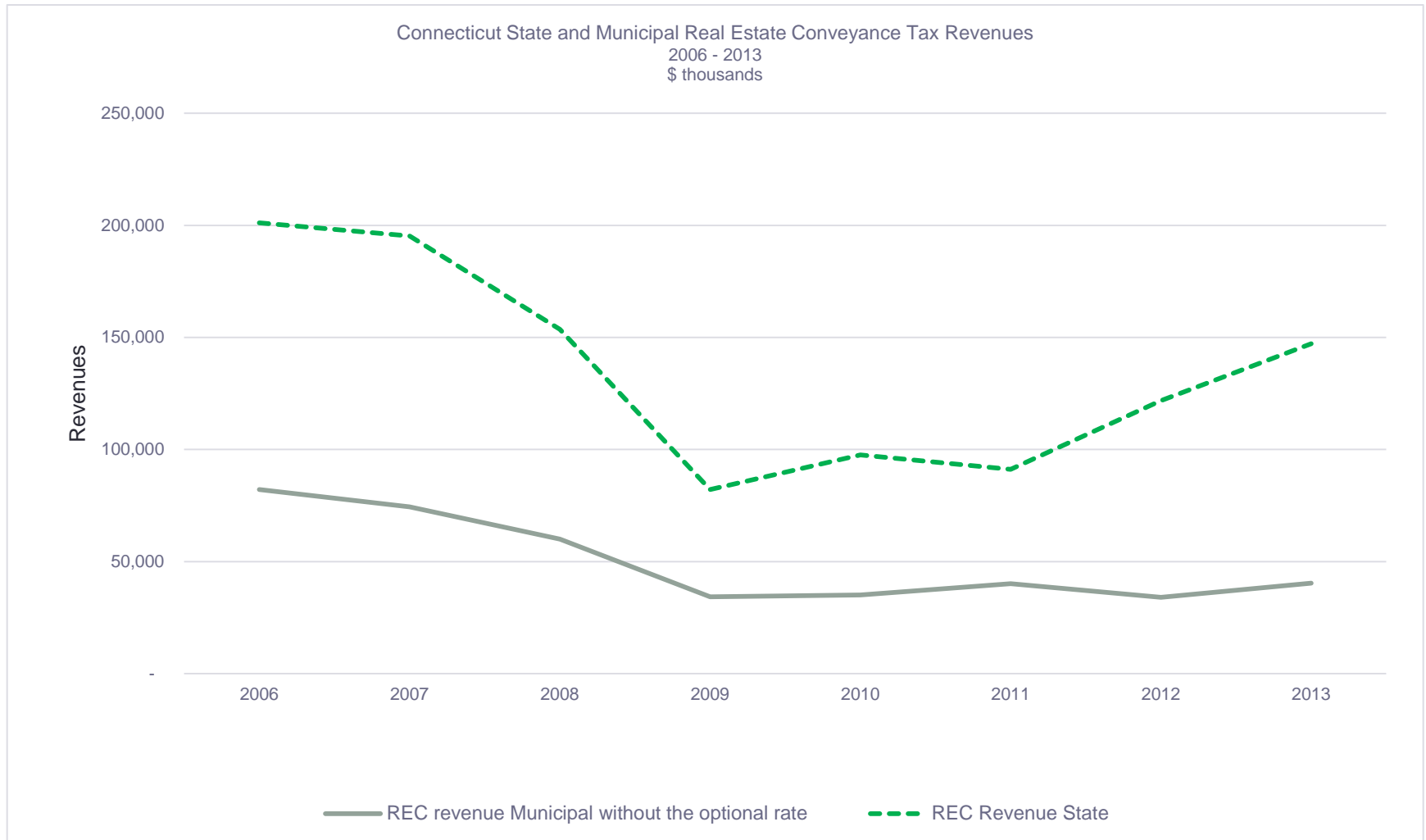
- Exemptions are not as extensive as in Connecticut
  - Lower threshold in other states
  - Not as many exemptions for distressed sales
- Massachusetts and Rhode Island state rates are lower with few local taxes
  - Rhode Island shares its state revenues with local governments
- New York and New Jersey have complex structures
  - New York tax imposed by state and multiple jurisdictions, including New York City.
    - High rate of tax imposed on residential properties over \$1 million, not marginal rate like Connecticut
  - New Jersey has both state and county taxes.
    - “Mansion Tax” for properties over \$1million applies to all properties not just residential

# Market Collapsed Both Sales and Price

## Connecticut Housing Sales and Prices

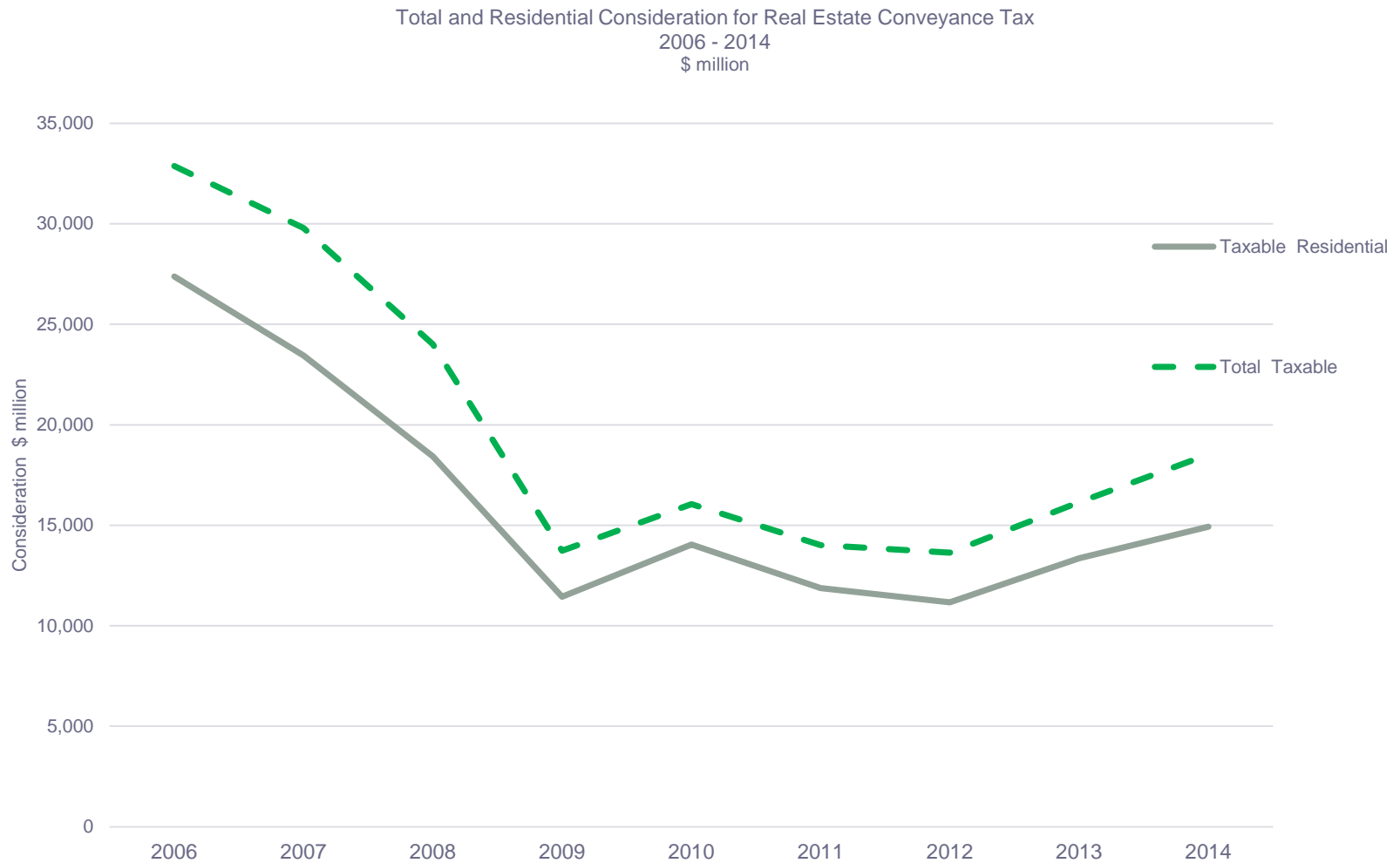


# Rate Structure Has Impact





# Residential Considerations: Major Factor



# Replacement Equivalent For Local Tax

- Conveyance Tax is included as general revenue as only other local revenue source.
- In effect REC revenues reduce the amount of property tax needed to be raised.
- Because of the limited amount and volatility of revenue, generally has a small impact on local mill rate.
- A significant proportion of REC is raised from sale of residential property.
- Property taxes are generally spread more evenly over the different types of property.
- If property taxes were to replace REC, tax rates would increase, most recently by 0.11 mills in Targeted Communities, less in others.

# Tax Regressive-very high burden for low income

Household Income	Midpoint Median Housing Value	CRE Tax-at State and Basic Rate	Tax as Percent of Income
Less than \$10,000	\$150,000	\$1,500	30.0%
\$10,000-\$35,000	\$225,000	\$2,250	10.0%
\$35,000-\$50,000	\$225,000	\$2,250	5.3%
\$50,000 - \$75,000	\$375,000	\$3,750	6.0%
\$75,000 - \$100,000	\$375,000	\$3,750	4.3%
Over \$100,000 (assumed to be \$200,000)	\$800,000	\$8,000	4.0%

# Use of Transfer Tax Funds

- Pay for administering the tax
  - Washington State: 1.3% of state revenues to local collectors
  - Colorado: All of state revenues (imposed at .01%)
- Share state revenue with local governments
  - Washington State: Almost 8% account to fund maintenance of local government public works facilities
  - \_\_\_\_\_ 1.6% to city/county assistance account
  - Rhode Island: 47% to local governments
  - Nebraska: 22%
- State earmarking state funds
  - Hawaii: Affordable housing, Conservation and general revenues
  - Maryland: Open space
  - D.C.: Affordable Housing

# Options Related to Keeping Local Tax

- Status quo (option 1)
- Retain the local tax including the optional rate for the targeted investment communities and repeal the state component of the REC and the state CIT. With repeal of the state rates, provide optional rates for municipalities (option 2)
- Provide additional local optional tax rate for communities to impose a regional REC (option 8)

# Options Related to Keeping State Taxes

- Status Quo (option 1)
- Retain both state taxes but repeal the REC local components, including authority for the optional tax in the targeted investment communities. (option 3)
- If remove local option, increase the state REC rates by the 0.25 percent local rate and permanently earmark the increased revenues attributed to the rate increase for regional activities (option 4) or distribute 30 percent of revenues to localities that collected revenues (option 5)

# Option Related to Controlling Interest

- Status Quo
- Increase rate to 1.5 percent which is the current maximum combined state and general local (option 6)
- In conjunction with raising the CIT rate suggested in Option 6, permit proportional taxation of value of property when less than 100 percent of directly controlled interest is transferred (option 7)