

Fiscal Estimate Narratives

DOR 7/12/01

LRB Number 01-3326/1	Introduction Number SB-213	Estimate Type Updated
Subject Real estate transfer fee for transfer between related business		

Assumptions Used in Arriving at Fiscal Estimate

Under current law, a real estate transfer fee is imposed on the transfer of ownership interest in real property at the rate of \$0.30 per \$100 of value. The county retains 20% of the fee; 80% is transmitted to the state. Total fees collected in 2000 were \$54 million.

Under current law, conveyances of real estate for no monetary consideration except for assumption of debt or for ownership interest between an entity and its members are exempt if all members are family members. This applies to corporations, partnerships and limited liability corporations (LLCs). Conveyances between unrelated individuals and a corporation or partnership or LLC are subject to a fee even if ownership interests do not change. Conveyances between entities, e.g. a partnership to an LLC, are also subject to a fee even if members of the two entities are related.

Under current law, conveyances from a subsidiary corporation to its parent for no consideration or for stock transfer only are exempt from the fee; however a conveyance from a parent corporation to a subsidiary is subject to the fee.

Under the bill, a conveyance of real estate between a corporation, partnership, or LLC would be exempt from the fee if all shareholders, partners, or members of the entity transferring the real estate are the same persons as the shareholders, partners or members of the entity receiving the real estate. As a result, if an entity converts to another form of organization, such as partnership to an LLC, the property owned by the original entity could be conveyed to the newly-formed entity without paying the fee so long as all the members of the original entity are members of the new entity.

It is expected that the bill would affect the transfer of real property from partnerships and small corporations to LLCs, and from parent corporations to subsidiaries. Given the trend for business entities to reorganize as LLCs, it is expected that the bill would further encourage entity conversions. Data are not available to estimate the number of such property transfers that occur annually or that would occur as a result of the bill. It is expected that the bill would significantly decrease revenue to the extent that entity conversions will result in the conveyance of high-valued property. Based on DOR data, there are approximately 100,000 active corporations in Wisconsin. If as few as 1% convey property valued at \$1 million due to restructuring or parent-to-subsidiary transfers, the bill would reduce the fee by \$3 million (100,000 x 1% x \$1 million x .003). To the extent that affected properties are likely to be of higher value, the bill would result in greater reductions in fee revenue.

The department would be required, under the bill, to audit all entity-to-entity conveyances claiming the exemption to ensure that members of both entities are the same. The department estimates that 1.0 FTE would be required, and increased annual costs would be \$55,700 for the increased audit function. There would also be one-time administrative costs of \$7,400. The bill does not provide funding for these costs.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 01-3326/1		Introduction Number SB-213	
Subject			
Real estate transfer fee for transfer between related business			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
\$7,400			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$51,200	
(FTE Position Changes)			
State Operations - Other Costs		4,500	
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$55,700	\$
B. State Costs by Source of Funds			
GPR		55,700	
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$55,700	\$
NET CHANGE IN REVENUE		\$See text of fiscal note.	\$See text of fiscal note.
Agency/Prepared By		Authorized Signature	
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		Date	
		7/12/01	