

## Fiscal Estimate - 2001 Session

Original
     
  Updated
     
  Corrected
     
  Supplemental

LRB Number <b>01-3511/1</b>	Introduction Number <b>SB-342</b>	
<b>Subject</b>		
Real estate transfer fee exemption for conveyances between business entities		
<b>Fiscal Effect</b>		
<b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs		
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs                                            3. <input type="checkbox"/> Increase Revenue                                            5. Types of Local Government Units Affected <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities 2. <input type="checkbox"/> Decrease Costs                                            4. <input checked="" type="checkbox"/> Decrease Revenue <input checked="" type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts		
<b>Fund Sources Affected</b> <b>Affected Ch. 20 Appropriations</b> <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
DOR/ Rebecca Boldt (608) 266-6785	Brian Pahnke (608) 266-2700	12/17/01

## Fiscal Estimate Narratives

DOR 12/17/01

LRB Number	01-3511/1	Introduction Number	SB-342	Estimate Type	Original
<b>Subject</b>					
Real estate transfer fee exemption for conveyances between business entities					

### 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 FY 01 were approximately \$55 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). Family members are specified to be spouses, lineal ascendants, lineal descendants, siblings and spouses of siblings.

Under current law, conveyances between entities, e.g. a partnership to an LLC, are subject to a fee even if members of the two entities are related. Thus, a conveyance of property from a brother and sister partnership (AB Partnership) to an LLC with the brother and sister as shareholders (AB LLC) is subject to a fee. However, a fee can be avoided if the transfer occurs in two conveyances so long as the members of the transferring entity are members of the receiving entity. For example, property of AB Partnership can first be conveyed to the individual members A and B. This conveyance is exempt from the fee under s. 77.25(15m), Stats. This exemption exempts conveyances between a partnership and its partners if all the partners are related. The individuals can then convey the property to AB LLC, which is exempt from the fee under s. 77.25(15s), Stats. This exemption exempts conveyances between an LLC and its members if all the members of the LLC are related.

Under current law, this two step transfer would not completely avoid the fee if all members of the transferring entity were not members of the receiving entity. For example, a conveyance of property from the AB Partnership to individual members A and B is exempt under s. 77.25(15m), Stats.; however, if the property was then conveyed to an LLC with only B as a member (B LLC), the conveyance of A's interest to the LLC would be subject to a fee since A is not a member of the LLC.

Under current law, a fee would be imposed on the transfer of property from the hypothetical AB Partnership to an entity comprised of other siblings, for example CD LLC. Even though the members of the receiving entity are related to members of the transferring entity, this type of conveyance is subject to the fee because neither A nor B is a member of the receiving entity.

Under the bill, a conveyance of real estate between a corporation, partnership, or LLC would be exempt from the fee if the shareholders, partners, or members of the entity transferring the real estate are related to the shareholders, partners or members of the entity receiving the real estate and if the transfer is for no consideration except the assumption of debt or ownership interest. If the transfer is from a corporation, the bill limits the exemption to conveyances of property that the corporation had owned for at least three years.

The bill would exempt conveyances from a family entity to a family entity in a single conveyance. To the extent that such conveyances are not subject to the fee under current law when transferred in two conveyances, the bill would not have a fiscal effect with regard to these types of conveyances.

However, the bill does not require that the members of the transferring entity be members of the receiving entity; it only requires that members of the transferring entity be related to members of the receiving entity. As a result, the previously described conveyances from AB Partnership to B LLC or from AB Partnership to CD LLC would be exempt from the fee under the bill. The bill would result in a decline in fee collections associated with these conveyances. Data are not available on the number of such conveyances that occur annually or that would occur as a result of the bill. It is expected that the conveyances most affected under the bill are exempt under current law through multiple step transfers.

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 related. 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

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  Updated     
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<b>LRB Number</b> 01-3511/1		<b>Introduction Number</b> SB-342	
<b>Subject</b>			
Real estate transfer fee exemption for conveyances between business entities			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
\$7,400			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
	State Operations - Salaries and Fringes	\$51,200	
	(FTE Position Changes)		
	State Operations - Other Costs	4,500	
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$55,700</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR	55,700	
	FED		
	PRO/PRS		
	SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)</b>			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		<u>State</u>	<u>Local</u>
	NET CHANGE IN COSTS	\$55,700	\$
	NET CHANGE IN REVENUE	\$See	\$See
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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