

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1069 (Delegates Healey and Rosapepe)
Ways and Means

Recordation and Transfer Taxes - Transfers of Controlling Interests

This bill imposes recordation and transfer taxes on the transfer of real property, with a value of \$500,000 or more, when the transfer is achieved through the sale of a "controlling" interest in a corporation, partnership, limited liability company, or other form of unincorporated business. "Controlling" interest is defined as more than 80% of total value of the stock or the interest in capital and profits.

This bill is effective January 1, 1998.

Fiscal Summary

State Effect: Special fund revenues could increase by \$1.7 million in FY 1998, reflecting the bill's January 1, 1998 effective date, and general fund expenditures could increase by \$59,600 in FY 1998. Future year estimates reflect stable tax collections and inflation.

(in thousands)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
SF Revenues	\$1,700	\$3,400	\$3,400	\$3,400	\$3,400
GF Expenditures	\$60	\$60	\$62	\$65	\$67
Net Effect	\$1,640	\$3,340	\$3,338	\$3,335	\$3,333

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Local revenues could increase by \$4.6 million in FY 1998, reflecting the bill's January 1, 1998 effective date as discussed below. Expenditures would not be affected.

Small Business Effect: Potential meaningful impact on small businesses as discussed below.

Fiscal Analysis

Background: Under current law, real property can be transferred without payment of transfer and recordation taxes by transferring controlling interest or ownership of the entity if the property is owned by a corporation, limited liability company, or partnership.

State Revenues: There were 239 sales of single parcel commercial property in fiscal 1996 where over \$500,000 was paid that were subject to recordation and transfer taxes. The total consideration for these property sales was approximately \$574 million. Based on a fiscal 1992 review of transfers of controlling interests, it is estimated that this bill would generate an additional \$1.7 million in transfer tax revenues in fiscal 1998 and \$3.4 million annually thereafter. These special fund revenues would be distributed to Program Open Space, the Agricultural Land Preservation Fund, and the Heritage Conservation Fund. The fiscal 1998 estimate reflects the bill's January 1, 1998 effective date.

The clerks of the courts in each county would also receive additional revenues from fees assessed for collection of local transfer and recordation taxes; the amount of additional revenues depends upon the number of transactions processed and the percentage of tax collections retained in a particular county.

State Expenditures: The Department of Assessments and Taxation advises that general fund expenditures could increase by approximately \$59,600 in fiscal 1998 for the costs of hiring one Charter Specialist and one Office Secretary to assist in the collection of additional recordation and transfer taxes. The Department of Fiscal Services advises that the Department of Assessments and Taxation could begin collection of these additional taxes using existing resources. Depending upon the specific amount of new taxes collected, the additional staff requested by the department may be needed in future years.

Local Revenues: For fiscal 1998, it is estimated that this bill would generate \$1.2 million in additional local recordation tax revenues and \$2.3 million in future years. For the 17 counties that assess local transfer taxes, the bill would generate an estimated \$3.4 million in additional transfer tax revenues in fiscal 1998 and \$6.8 million in future years. Local revenues would increase by a total of \$4.6 million in fiscal 1998 and by \$9.1 million in future years. The estimate for fiscal 1998 reflects the bill's January 1, 1998 effective date.

Small Business Effect: This bill could increase the costs of small businesses purchasing or selling real property through a sale of the "controlling" interest in a corporation, partnership, limited liability company, or another form of unincorporated business by imposing transfer and recordation taxes on these purchases.

Information Sources: Department of Assessments and Taxation, Judiciary (Administrative Office of the Courts), Department of Fiscal Services

Fiscal Note History: First Reader - February 25, 1997

lc

Analysis by: Ryan Bishop

Reviewed by: Paul Ballou

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710