

Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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S.67 An act relating to the property transfer tax

<https://legislature.vermont.gov/Documents/2020/Docs/BILLS/H-0168/H-0168%20As%20Introduced.pdf>

Summary

This bill clarifies that Vermont's existing property transfer tax applies to property transfers when there is a transfer of controlling interest in a corporation or legal entity that holds property in Vermont. The bill makes changes to the definitions of "person," "transfer," and "value" under 32 V.S.A. §9601 to include partnerships or limited liability companies that transfer direct or indirect controlling interest of property to any person or corporation. Controlling interest is defined as 50% or more of the total combined voting power of all classes of stock in a corporation or 50% or more of the capital or profits of a partnership or trust.

Estimate

The estimate below represents baseline revenues for typical year-to-year controlling interest transfers. However, this revenue could be very volatile due to large one-time controlling interest transfers in any given year. The additional revenue generated by this bill could be significantly higher in any single year due to these large one-time events.

The Joint Fiscal Office estimates that this bill will generate an additional \$1.6 million in baseline property transfer tax revenue in FY20 and growing in future years. The property transfer tax contains two components¹:

- Property transfer tax revenues themselves which are allocated in the following fashion:
 - The first 2% are these revenues are retained for the Department of Taxes for administration costs
 - The remaining 98% are dedicated as follows:
 - 33% to the General Fund
 - 50% to the Housing and Conservation Trust Fund
 - 17% to the Municipal and Regional Planning Fund
- The Clean Water Surcharge (0.2%), the revenues of which are dedicated to the Clean Water Fund

¹ In previous fiscal years, the Legislative budget and the Administration's proposed budgets have allocated a certain amount of property transfer tax revenue to these funds. The remaining property transfer tax revenues are then distributed to the General Fund, notwithstanding the statute on the allocation of the various funds.

| Table 1: Revenue Estimates from S.67 (in millions) | | | |
|---|---------------|---------------|---------------|
| Fiscal Year | FY2020 | FY2021 | FY2022 |
| Total Revenue | \$1.68 | \$2.56 | \$2.90 |
| Of which: Department of Taxes Property Valuation and Review Fund | \$0.03 | \$0.04 | \$0.05 |
| Of which: Housing and Conservation Fund | \$0.71 | \$1.1 | \$1.2 |
| Of which: General Fund | \$0.47 | \$0.71 | \$0.82 |
| Of which: Municipal and Regional Planning Fund | \$0.24 | \$0.36 | \$0.42 |
| Of which: Clean Water Fund | \$0.23 | \$0.35 | \$0.41 |

This estimate is based upon data from other states that have similar controlling interest provisions within their property transfer taxes. Based upon these other state experiences, revenues from controlling interest transfers tend to increase year over year for the first two to three years as practitioners become more adept at applying the law to controlling interest transfers. This explains the ramp up in revenues in succeeding fiscal years.

Administrative costs for this bill are expected to be minimal for the Department of Taxes. However, it is possible additional resources may be needed in the future should the Department discover future needs to ensure compliance.

Appendix

This estimate relied upon data from the Connecticut and Maine Departments of Revenue, the Department of Taxes 2018 Property Valuation and Review Annual Report² and the January 2018 Consensus Revenue Forecast.

This estimate assumes that the vast majority of controlling interest sales will pay the 1.25% property transfer tax rate. Transfers that pay this tax are non-principal residences and principal residences on the marginal value above \$100,000

² “Annual Report: Based on 2018 Grand List Data.” Division of Property Valuation and Review. Vermont Department of Taxes. <https://tax.vermont.gov/sites/tax/files/documents/PVR-Annual%20Report-2018%20Grand-List-Data.pdf>