

DEPARTMENT OF TAXATION

2009 Fiscal Impact Statement

1. **Patron** Christopher K. Peace

3. **Committee** House Finance

4. **Title** Recordation Tax: Exemption

2. **Bill Number** HB 2661

House of Origin:

 Introduced

 X **Substitute**

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

TAX understands that the Patron will be introducing an amendment in the nature of a substitute for this bill. This fiscal impact statement is applicable to that substitute version.

This bill would provide a reduction in the rate of the state recordation tax for eligible taxpayers. The rate would be reduced to three cents on every \$100 or fraction thereof of the consideration of the deed or the actual value of the property conveyed, whichever is greater, for the first \$250,000. This rate reduction would be applicable beginning on July 1, 2009, and ending on September 30, 2009.

Out of the total amount of tax that was collected from the eligible taxpayers, two cents per \$100 would be deposited into the Commonwealth Mass Transit Fund and the remaining one cent per \$100 would be deposited into the Highway Maintenance and Operating Fund. In addition, the local recordation tax, which is equal to one-third of the state recordation tax, would be calculated based upon the full amount of the state recordation tax, not the reduced rate.

This bill would be effective July 1, 2009.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2008-09	\$0	GF
2009-10	(\$6 million)	GF
2010-11	\$0	GF
2011-12	\$0	GF
2012-13	\$0	GF
2013-14	\$0	GF
2014-15	\$0	GF

7. Budget amendment necessary: Yes.

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8. Fiscal implications:

Administrative Costs

There would be no administrative cost to TAX to implement this bill. Local clerks of the Circuit Court may incur implementation costs.

Revenue Impact

According to the Census Bureau's 2005 American Housing Survey (AHS), approximately 2.4 million new households bought their first homes during 2005 nationwide. Using historical data and the current forecast by the National Association of Realtors, it was estimated that there will be approximately 48,000 purchases of homes by first time homebuyers in Virginia in 2009. It was estimated that one-quarter of these homes, or approximately 12,000, would be purchased in the three month period beginning in July and ending in September.

Using AHS survey data to analyze characteristics of first time homebuyers, including marital status and income levels, it is estimated that, out of the approximately 12,000 homes that would be purchased during the applicable time period, approximately 10,900 homes would be purchased by qualifying purchasers. If all 10,900 homes cost at least \$250,000, the average savings per home would be \$550. Therefore, the total negative revenue impact in FY 2010 would be approximately \$6 million.

This estimate is tentative, however, because it is based on national data and because of the volatility of the current housing market and financial institutions. In addition, to the extent that the homes that are purchased cost less than \$250,000, the revenue impact would be lower.

This bill would have no impact on the amount of recordation taxes allocated to the Transportation Trust Fund or on the amount collected by the localities.

9. Specific agency or political subdivisions affected:

Department of Taxation
Clerks of the Circuit Courts
All Cities and Counties

10. Technical amendment necessary: No.

11. Other comments:

Background

Under current law, every deed admitted to record, except a deed exempt from taxation by law, is subject to a state recordation tax. This tax is imposed in the amount of twenty-five cents for every \$100 or fraction thereof of the consideration of the deed or the actual value of the property conveyed, whichever is greater. The clerk of the court in which the deed is recorded collects the tax and distributes the amount to the state treasury. Out of the total recordation tax collected, three cents per \$100 of value are deposited into the Transportation Trust Fund.

In addition to the state recordation tax, the council of any city or county may also impose a city or county recordation tax equal to one-third of the amount of state recordation tax.

Proposal

This bill would provide a three month reduction in the rate of the state recordation tax for eligible taxpayers. The rate would be reduced to three cents on every \$100 or fraction thereof of the consideration of the deed or the actual value of the property conveyed, whichever is greater, for the first \$250,000. This rate reduction would be applicable beginning on July 1, 2009, and ending on September 30, 2009.

Out of the total amount of tax that was collected from the eligible taxpayers, two cents per \$100 would be deposited into the Commonwealth Mass Transit Fund and the remaining one cent per \$100 would be deposited into the Highway Maintenance and Operating Fund. In addition, the local recordation tax, which is equal to one-third of the state recordation tax, would be calculated based upon the full amount of the state recordation tax, not the reduced rate.

"Eligible taxpayer" would mean an individual who meets the following conditions: (1) the federal adjusted gross income of the individual for the taxable year preceding the year in which the qualified purchase was made does not exceed (i) \$150,000 for taxpayers who are married filing jointly for purposes of the Virginia individual income tax, or (ii) \$75,000 for taxpayers filing as single or as married filing separately for purposes of the Virginia individual income tax; (2) the individual and his spouse, if married, shall have had no present ownership interest in a principal residence during the three-year period ending on the purchase date of the property to which the reduction allowed under this section is applicable; and (3) the individual and his spouse, if married, must intend to occupy the property to which the reduction allowed under this section is applicable as their principal residence.

This bill would be effective July 1, 2009.

Similar Legislation

House Bill 1823 would require the recordation tax on deeds to be based upon stated consideration, even when it is less than the actual value of the real estate conveyed by the deed. This bill would also require that if the consideration is nominal or when the sale is through foreclosure or other similar sale, the recordation tax would be based upon the appraised value of the property.

House Bill 2135 would require the recordation tax on deeds to be based upon stated consideration, even when it is less than the actual value of the real estate conveyed by the deed.

Senate Bill 1157 would require the recordation tax on deeds to be based solely upon actual consideration, even when it is less than the actual value of the real estate conveyed by the deed.

cc : Secretary of Finance

Date: 1/27/2009 TLG
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