

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 1269
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: OCTOBER 23, 2020

SUMMARY

Synopsis: Eliminates the 1% fee, and the 1% tax, on purchasers of Class 4A commercial property transferred for consideration in excess of \$1 million.

Type of Impact: Annual State General Fund revenue loss.

Agencies Affected: Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2021 and Thereafter</u>
State Revenue Loss	\$30 million to \$40 million

- The Office of Legislative Services (OLS) expects this bill to decrease State General Fund revenue in the aggregate by up to \$40 million annually if both the tax and fee are repealed. Most of the revenue loss would originate from repealing the one percent fee imposed on Class 4A commercial properties through the State’s realty transfer fee.

BILL DESCRIPTION

This bill eliminates the fee, equal to one percent of the total consideration paid, on the purchaser of Class 4A commercial property transferred by deed for consideration in excess of \$1 million. Class 4A commercial property is any kind of income-producing real property other than property classified as vacant land, residential property or apartments, farm property, and industrial property.

This bill also eliminates a parallel tax on the purchaser in a non-deed transfer of a controlling interest in an entity that owns Class 4A commercial properties, equal to one percent of the total consideration paid, if the total consideration for the transfer is in excess of \$1 million.

The bill applies to transfers made on or after the first day of the second month next following the bill’s date of enactment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS expects this bill to decrease State General Fund revenue in the aggregate by up to \$40 million annually if both the tax and fee are repealed. Most of the revenue loss would originate from repealing the one percent fee imposed on Class 4A commercial properties through the State's realty transfer fee.

The bill eliminates an additional one percent fee imposed on Class 4A commercial properties through the State's realty transfer fee and a one percent tax on the transfer of a controlling interest in an entity that directly or indirectly owns certain Class 4A commercial real property, otherwise known as the controlling interest transfer tax (CITT). Based on data provided in the State's accounting system from the past five full fiscal years, the CITT generated on average \$5.7 million annually. The State's accounting system does not separate the commercial component of the realty transfer fee's one percent assessment on real properties greater than \$1 million. However, in recent responses to OLS discussion point questions for the Department of the Treasury, the department indicated that roughly 20 percent of returns filed for the one percent fee were from commercial properties. Based on data provided in the State's accounting system from the past five full fiscal years, the one percent assessment on real properties greater than \$1 million generated on average \$133.2 million annually. The OLS assumes that 20 percent of that revenue is attributable to commercial properties yielding \$26.6 million in revenue annually. Combining the revenue loss from repealing the CITT and the one percent assessment on real Class 4A commercial property greater than a \$1 million results in a revenue loss of \$32.4 million annually.

Section: Revenue, Finance and Appropriations
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Legislative Budget and Finance Officer

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).