O2019-1334 Creates Homeless Transfer Tax Fund

Alderman Walter Burnett **Finance**

Intro Date: March 13, 2019

Headline: This ordinance would impose a tax on all real estate transfers over $1 million in price with all revenue earmarked for homeless services.

Background: This would be in addition to the existing transfer taxes of $3.75 per $500, which is projected to raise $440 million for the Corporate Fund in 2019, and $1.50 per $500, which is projected to raise $64 million to be transferred to the CTA in 2019. Unlike the proposed tax, the existing real estate transfer taxes are imposed on the whole purchase price, regardless of what that price is.

Summary: The proposed tax would be $6 per $500 (i.e., 1.2%) of the amount the transfer price exceeds $1 million, and would be paid by the buyer. The tax would take effect on July 1, 2020. All revenue from the proposed tax would be placed in a newly created Homeless Transfer Tax Fund, which could only be used for designated programs of the Department of Family and Support Services and the Department of Housing to prevent and end homelessness. This fund could not be used to reduce spending on homelessness programs from other funding sources. The City Council would determine the exact distribution of spending from the Fund from among eligible uses.

Immediate Fiscal Impact: Would raise approximately $218 million for homeless services in 2020.

Long-Term Fiscal Impact: Would raise approximately $436 million per year for homeless services in 2021 and thereafter.

Co-sponsors:

Additional Considerations:

1. COFA’s revenue estimates are based on 2018 sales data provided by the Cook County Assessor. The potential revenue was calculated by taking the total sale value, subtracting $1 million times the number of sales (because the first $1 million of any sale would be exempt from the tax), and multiplying the resulting sum by 1.2%. The 2020 revenue estimate is based on a half year of sales.

2. The Assessor was able to provide annual data from 2012-2018. It shows that this is an exceptionally unstable revenue source. It appears that not only is it very sensitive to the business cycle, but that a very small number of very large deals can skew the results for a whole year.

YEAR	# OF DEEDS	TOTAL SALE VALUE
2012	1294	$21.7 billion
2013	1771	$48.2 billion
2014	2031	$127.0 billion
2015	2016	$47.5 billion
2016	2322	$156.3 billion
2017	2353	$59.7 billion
2018	2197	$38.6 billion

3. COFA's revenue estimates do not take into account the fact that real estate entities would likely game the system to evade the tax. In the short-term, some transactions may be accelerated to close prior to July 1, 2020. In the long-term, single deals may be broken up into multiple transactions, each of which would be less than $1 million. It is already common for large commercial buildings to be divided into many PINs, so purchasers might evade the tax by buying each PIN on a separate deed rather than listing them altogether on the same deed, even though they are all part of the same deal.