O2019-5569 **Additional Real Estate Transfer Tax for Pension Contribution**

Alderman O'Shea **FINANCE**

Intro Date: July 24, 2019

Headline: This ordinance would impose a tax on all real estate transfers over $1 million in price with the revenue earmarked for contribution to the City's pension funds.

Background: This would be in addition to the existing real property transfer taxes of $3.75 per $500 for the Corporate Fund and $1.50 per $500 for the City's contribution to the CTA. The existing taxes were projected to raise $440 million and $64 million, respectively, in the 2019 Appropriation Ordinance. Unlike the proposed tax, the existing real property transfer tax is imposed on the entire purchase price.

Summary: The proposed tax would be an additional $1 per $500 (i.e., 0.2%) of the amount the transfer price that exceeds $1 million, and would be paid by the buyer. All of the revenue from the additional tax would be used toward the City's required contributions to its four pension funds (Municipal, Laborer's, Policemen's and Firemen's). The Budget Director, the Comptroller and the CFO would determine the revenue distribution among the funds by majority vote.

The tax would take effect once all of the following had taken place: passage and approval by the City Council; approval of the tax increase by a referendum conducted pursuant to 65 ILCS 5/8-3-19; and sixty days after publication of notice by the Department of Finance that it had systems are in place to allow the administration of the ordinance as amended.

Fiscal Impact: Would raise approximately $72 million per year once in effect. This estimate is contingent on provisions addressing potential evasion (see Additional Considerations #3).

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 0.2%.

2. The Assessor was able to provide annual data from 2012-2018. It shows that this is an unstable revenue source. It is very sensitive to the business cycle, and a very small number of 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 the ordinance as written could offer loopholes for real estate entities to evade the tax. In the short-term, some transactions may be accelerated to close prior to September 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.

4. The last transfer tax increase for real estate sales in Chicago was an additional $1.50/$500 to provide funding for the CTA, which took effect on April 1, 2008. Unlike the tax increase in the present proposed ordinance, that increase applied to the entire sale price. According to data provided by the Illinois Department of Revenue, the number of sales per month in Chicago was 33.3% lower in Chicago from April, 2008 through December, 2009, and the total value of those sales was 58.1% lower. However, during those same periods, sales were 30.7% lower and total value was 52.6% lower in suburban Cook County, which did not have a transfer tax increase. This suggests that the tax increase may have lowered sales by an additional 2.5% and values by an additional 5.5%. However, COFA would caution against drawing firm conclusions about the effect of the tax, since it took effect during the same year that the real estate market underwent a historic collapse nationwide.