

# FISCAL NOTE

**Bill #:** SB514

**Title:** Revise reporting of gain or loss from sale of real property

**Primary**

**Sponsor:** Lorents Grosfield

**Status:** Second Reading

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Sponsor signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chuck Swysgood, Budget Director

\_\_\_\_\_  
Date

## Fiscal Summary

	<b><u>FY2002 Difference</u></b>	<b><u>FY2003 Difference</u></b>
<b>Expenditures:</b>		
General Fund	12,300	
<b>Revenue:</b>		
General Fund	36,450	72,900
<b>Net Impact on General Fund Balance:</b>	24,150	72,900

<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
	<input checked="" type="checkbox"/>	Significant Local Gov. Impact		<input checked="" type="checkbox"/>	Technical Concerns
	<input checked="" type="checkbox"/>	Included in the Executive Budget		<input checked="" type="checkbox"/>	Significant Long-Term Impacts
	<input checked="" type="checkbox"/>	Dedicated Revenue Form Attached		<input checked="" type="checkbox"/>	Family Impact Form Attached

## Fiscal Analysis

### ASSUMPTIONS:

1. On the federal level “real estate reporting persons” must report real estate transactions (as provided for in federal regulation Reg. § 1.6045-4(e)) on Form 1099-s. These reporting requirements include sales involving a condominium unit or stock in a residence for \$250,000 or less (\$500,000 or less for married sellers), upon receipt of certain written assurances from the seller.
2. Real estate reporting persons are required by federal regulation to provide this information to the Internal Revenue Service. Nothing requires these reporting persons to provide the state with the same information. This proposal will require these reporting persons to provide the information required by federal regulation to the state.
3. The department has written all real estate brokerage firms, banks, saving and loan associations, etc. in the state, and has requested that the department be provided a copy of Form 1099-s on a voluntary basis.

(continued)

4. An example of a situation where the state may not receive the Form 1099-s is when the seller of the property is a non-resident and the purchaser of the property is also a non-resident of the state. In this case the state does not receive information unless the buyer or seller voluntarily provides copies of the 1099-s to the state. Nonetheless, the seller is subject to state income tax
5. Currently it is unknown how many reporting persons do not report real estate transaction with a Form 1099-s to the state.
6. This proposal will increase the number of reporting persons sending copies of their Form 1099-s to the state, which in turn will increase general fund revenues, but to the extent this proposal will affect future revenue is indeterminable. An example is provided below to illustrate the impact of the proposal.
7. Suppose one Form 1099-s is filed with the state. The 1099-s indicates the seller has a capital gain of \$50,000 that would incur a state income tax liability. Assume the seller's capital gain is subject to the 10% income tax rate. The tax liability of the seller would be \$3,645
8. Assume in fiscal year 2002 ten transaction are recorded that have capital gains of \$50,000 and in fiscal year 2003, twenty transaction are recorded that have capital gains of \$50,000. It is assumed that these transactions would not have reported under current law.
9. Suppose in fiscal 2002 that ten transactions would generate \$36,450 in income tax revenue. Assume in fiscal year 2003 the twenty transactions would generate \$72,900 in income tax revenue
10. The amended version of this proposal adds the requirement that the consideration paid for non-qualified agricultural land is recorded on the realty transfer certificates (RTC). It will cost the department \$12,300 to print new RTCs that provide a space for the consideration paid for the purchase of non-qualified agricultural land and new instructions on how to comply with this proposal.

FISCAL IMPACT:

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses	12,300	
<u>Funding:</u>		
General Fund (01)	12,300	
<u>Revenues:</u>		
General Fund (01)	36,450	72,900
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	24,150	72,900

LONG-RANGE IMPACTS:

The long-term impact of this proposal is that the department will be able to increase compliance in the reporting of income from real estate transactions. Improved reporting of income will lead to increased collection of income tax revenue.