



# TOWN OF AVON

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## TESTIMONY: Finance, Revenue and Bonding Committee Public Hearing March 11, 2013

Proposed Raised Bill No. 6577: AN ACT CONCERNING THE REAL ESTATE CONVEYANCE TAX (amendment to Connecticut General Statutes 12-494 (a))

Dear Co-Chairs Fonfara and Widlitz and members of the Committee,

I know you are all very busy and have a full schedule so I will be brief.

The Town of Avon requests the favorable recommendation of this Committee of Raised Bill No. 6577 entitled "An Act Concerning the Real Estate Conveyance Tax." The Act would amend Connecticut General Statutes 12-494 (a) to clarify that the conveyance tax is due on land and the improvements on that land when property is conveyed. This amendment is supported by the Connecticut Conference of Municipalities, the Council of Small Towns and the Capitol Region Council of Governments.

By way of background, the conveyance tax is an important revenue source for Connecticut's municipalities and the State of Connecticut. For transactions under \$800,000, the conveyance tax payable by the seller is 1% of the value. The Town collects the revenue, retains 25% and remits 75% to the Department of Revenue Services. For transactions over \$800k, the conveyance tax payable to the State increases to 1.25% for the value over that amount (it is slightly different for "distressed municipalities.")

A developer "seller" in Avon recently interpreted the statute in a way that we believe is completely inconsistent with the purpose of the statute. Under the developer's interpretation of the existing statute, if the developer enters into a contract with the buyer to sell a building lot to the buyer but at the same time separately contracts with the buyer to build a house, the developer pays the conveyance tax only on the value of the land. In some cases, the seller of the building lot and the builder are affiliates rather than the same entity. In both cases, however, the purpose of using a two-contract structure is to avoid the need for the developer to pay the conveyance tax on the value of the newly constructed house. Instead, it pays the tax only on the value of the land – which often is much less than the value of the house that is constructed. Both the lot and the house are conveyed at the same time.

When the recording occurs, a form OP-236 is filed in the Town Clerk's Office and the value listed on line 25 is the value of the LOT ONLY - even though there is a new house on that lot.

As an example, this structure was most recently used on November 20, 2012 in Avon. A "statutory form warranty" deed was recorded listing the value of the lot at \$160,000. At the same time a "mortgage deed" was filed showing that the combined value of the lot and house was at least \$570,000. The conveyance tax was only paid on the value of the lot - \$160,000.

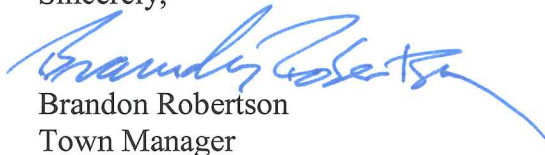
In Avon alone, one developer has used this structure in a dozen transactions. The total amount of revenue forgone to date is \$39,087 (State) and \$11,560 (Town). This same developer has been before the local Planning and Zoning Commission with a proposal for a subdivision that may exceed forty lots. If a forty lot subdivision were approved and we assume a median price of a house and a lot together is \$500k, and we assume the land value alone is about a third of the total price, the difference in revenue would be substantial. The Town would forgo revenue of \$34,000 and the State would forgo \$102,000.

Other Towns and Cities have also encountered this issue. The practice has been discussed with the Department of Revenue Services.

The bill before you provides the necessary remedy by making it clear that the conveyance tax is applicable to not only the underlying land but also any buildings, houses or similar structures affixed thereto or located thereon and other improvements made thereto.

Again, the favorable review of this committee is requested and I would be pleased to answer any questions.

Sincerely,



Brandon Robertson  
Town Manager