



TAX RELIEF FOR REAL ESTATE TRANSFERS BETWEEN COMMONLY OWNED ENTITIES

Effective October 1, 1999, a new Connecticut law, Public Act 99-231, exempts from the Real Estate Conveyance Tax any transfer of real property between entities with identical beneficial ownership.

Exemption

Real estate transactions in Connecticut generally are subject to a state Conveyance Tax of up to 1%, and a municipal tax of 0.11%. Until now, the tax applied even if the buyer and seller were owned 100% by the same individuals. Historically, the tax discouraged many transfers of real estate between commonly owned business entities.

The new law exempts from the Real Estate Conveyance Tax “transfers or conveyances to effectuate a mere change of identity or form of ownership or organization, where there is no change in beneficial ownership.”

This exemption applies to transfers between many types of entities, including the following:

- an individual to a limited liability company of which the individual is the sole member
- a corporation to its wholly owned subsidiary corporation
- a corporation to a limited liability company of which the corporation is the sole member
- a partnership to a limited liability company where the partners own identical equity interests as members of the limited liability company

- a tenancy in common to a limited liability company where the tenants in common own identical interests as members of the limited liability company.

Benefits of New Law

The new law should be of particular interest to real property owners who own their property individually. Such owners can now obtain the benefits of transferring the property to a limited liability company without incurring any Conveyance Tax.

Other beneficiaries include owners who wish to transfer real property to a separate, single-purpose holding company. Such transfers sometimes are required by lenders to insulate the property from legal claims arising out of the owner’s other business activities. An owner now can make such a transfer without paying a Conveyance Tax.

However, the new law does not change the “Controlling Interest Transfer Tax,” which applies to the transfer of a controlling interest in an entity that owns real property. Thus, if 50% or more of the equity interest in a company that owns real estate is sold to a new owner, the “Controlling Interest Transfer Tax” still applies, even though the real estate is still owned by the same company.

Conclusion

Under the new law, the decision whether to transfer real estate between entities with identical beneficial ownership can now be based primarily on the business reasons for the transfer without worrying about the Conveyance Tax. This is a welcome change for anyone with substantial real estate interests in Connecticut.

If you have any questions about the new law or would like further information, please feel free to contact **Cheryl Johnson** of our office at 203-222-0885.

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