

Council & Committee Corner



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Developer's Council News

Potential Transfer Tax and Real Estate Tax Changes on Entity Sales

Sophisticated property buyers know that 1) they pay a transfer tax, calculated based on the purchase price, when the deed is recorded, and 2) the purchase price listed on the deed conveyance form will serve as the fair market value for property taxes going forward. In an effort to avoid both the transfer tax and increased property tax, buyers may instead purchase

the underlying entity, thus avoiding the recording of any deed that will trigger the transfer or increased property tax. The State is looking to remedy this oversight.

Currently pending, draft Bill L-132-0940 seeks to impose transfer taxes on entity transfers when the entity owns real property. Presumably the imposition of a transfer tax will also alert the school board to the transfer, and then the school board will seek an increase in value to the entity transfer price. However, since nothing is filed when an entity is transferred, it will be difficult for the State to capture all transactions.

The proposed Bill also applies to *partial sales* of interests in a property owning entity. The Ohio Legislative Service Commission cites to an example where a 60% interest in an entity is sold; in that instance a transfer tax is due on 60% of the sales price applied to the underlying property. Those selling interests in real estate companies may be surprised by an unexpected additional transfer tax should this bill pass. As an industry we must fully understand the implications and potential unintended consequences of the bill.

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