

AGENDA # _____

CITY OF MADISON, WISCONSIN

REPORT OF:	Department of Revenue	PRESENTED	<u>5/18/04</u>
		REFERRED	<u>Board of Estimates</u>
TITLE:	Limited Liability Corporation Report	REREFERRED	_____

AUTHOR:	Ray Fisher, Director of Revenue	REPORTED BACK	_____

DATED:	April 27, 2004	ADOPTED	_____ POF _____
		RULES SUSPENDED	_____
		ID NUMBER	<u>36091</u>

TO THE MAYOR AND COMMON COUNCIL:

The Adopted 2004 Budget includes language (Revenue Department, page 51) that states:

“The Mayor shall appoint a three-person task force to review Limited Liability Corporation (LLC) issues. The group shall consist of one Board of Estimates Member, one City Attorney representative, and the Director of Revenue. A report, either interim or final, will be submitted to the Common Council by May 1, 2004”.

Limited liability corporations are a form of ownership that has become popular in recent years. In many cases, the sole asset of an LLC is a parcel of real estate. Under Wisconsin’s LLC statute, all of an LLC’s assets are treated as personal property and not subject to the real estate transfer fee imposed by Wis. Stats. 77.22.

When real estate is transferred in Wisconsin, a real estate transfer fee is imposed at a rate of 30 cents for each \$100 of value. The county retains 20% of the fee and the balance is transmitted to the state.

There is concern in our community that because real property is being acquired by LLC’s considerable revenue is being lost. This is true in the case of the county and the state; however, the city receives no income from the real estate transfer fees. The city does benefit from the sales information provided on the transfer form. The City Assessor uses this sales information to value the sold property as well as comparable properties. Lacking this sales information, the Assessor must rely upon other approaches to value.

At last count, there were over 62,000 parcels in the City of Madison. Of that number 6.5% (4,065 parcels) were held in LLC ownership. A summary by property class indicates 2,753 were residential, 68 agricultural, 1,207 commercial, and 37 industrial. The market value of these properties was nearly \$2 billion. We have no way of knowing how many of the 4,065 parcels represent sales; many owners of real estate simply transfer their ownership to an LLC to limit the owner’s liability, not to evade paying a transfer fee.

City staff worked with Representative Berceau to close this property transfer fee loophole by amending Wis. Stats. 77.21 to require the filing of transfer forms by LLCs when property is sold. Assembly Bill 701 was introduced but the bill died at the close of the last legislative session. Representative Berceau intends to reintroduce the bill in January. The Wisconsin Department of Revenue is supportive, as well as the Wisconsin Association of Assessors Organization, and others.