

HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Current Situation

Section 201.02(a), F.S. currently imposes documentary stamp tax on documents that transfer an interest in Florida real property. The tax is calculated based on the "consideration" of the transfer. Consideration includes money paid or to be paid, the discharge of an obligation, and the amount of any mortgage or other encumbrance. The current tax rate is \$0.70 per each \$100 of consideration.

Subsections (6) through (9) of s. 201.02, F.S., provide exemptions and limitations to imposition of the documentary stamp tax. These include:

- Transfers of real property from a nonprofit organization to specified governmental entities;
- Transfers of a marital home between spouses or former spouses as part of an action for dissolution of marriage; and
- Contracts to sell the residence of an employee relocating at his or her employer's direction, when the sales contract is between the employer and the employee.

There is also a limitation applied to certain judicial sales of real property under a foreclosure order. The certificate of title issued by the clerk of court is subject to the tax; however, the amount of the tax is computed based on the amount of the highest and best bid received at the foreclosure sale.

For fiscal year 2007-2008, total documentary stamp tax collections were an estimated \$2.3 billion, a 24.89 percent drop from FY 2006-2007. Revenue from the documentary stamp tax is divided between the General Revenue Fund and various trust funds that are used to acquire public lands or support affordable housing.¹

¹ Office of Economic and Demographic Research, The Florida Legislature et al., *Florida Tax Handbook, Including Fiscal Impact of Potential Changes*, 56 (2008), available at <http://edr.state.fl.us/reports/taxhandbooks/taxhandbook2008.pdf> (last visited Feb. 18, 2009).

Short Sales

A “short sale” is the sale of real property in which the purchase price is less than the outstanding debt secured by the property (i.e. a mortgage). In most short sale situations, the seller either is, or is likely to soon be, in default and the property securing the debt has decreased in value. In order to avoid foreclosure, the seller wants to sell the property as soon as possible.² Recent dramatic changes in the real estate market have increased the number of short sales.

In the majority of real estate transactions, the lender receives full payment of the loan obligation and agrees to release its lien on the secured property upon the sale of the property. In these transactions, the amount paid by the purchaser for the property is consideration and subject to documentary stamp tax.³

However, in short sale transactions because the purchase price of the property is less than the outstanding loan balance, the lender agrees to receive partial satisfaction of the loan obligation with the remaining debt cancelled. This cancelled debt has value to the seller because the seller is repaying less than what the seller borrowed to purchase the property; as a result, the issue is whether the amount of cancelled debt should be treated as consideration for the transfer and therefore included in calculations for documentary stamp tax purposes under s. 202.02, F.S.⁴

On September 23, 2008, the Department of Revenue (DOR) issued a technical assistance advisement in response to a request for guidance in determining the correct tax on deeds for short sales in Florida. DOR concluded, “[W]hen the lender cancels indebtedness of the seller, that cancellation is not included in determining the amount of consideration subject to tax under Section 201.02, Florida Statutes.”⁵ In reaching this conclusion, DOR reasoned:

The lender’s agreement to satisfy its lien and cancel a portion of the seller’s debt is a separate, unrelated transaction between the seller and the lender. The seller and the purchaser alone have entered into their contract for the transfer of real property. The lender is not related to either one of those parties and is not bound by any aspect of the contract between the seller and the purchaser.

Independently, the lender has agreed to satisfy its lien and cancel a portion of the seller’s debt. The lender is not related to or controlled in any way by either other party, and neither the lender nor any of its related parties is receiving any interest in the real property. The lender has merely evaluated its risk as a creditor of the seller and the decreasing value of the seller’s collateral, and the lender has made a business decision to cancel a portion of the seller’s debt in return for the current payment of a lesser amount. Section 201.02(1), Florida Statutes, does not clearly impose tax merely because the seller happens to be a party to both transactions.

...

Unlike other situations where an obligation is discharged in exchange for real property ..., it is at best unclear whether the Legislature intended to impose tax on the amount cancelled by the lender. When the application of a taxing provision is unclear or ambiguous, the Department is bound to construe that taxing statute narrowly, against the imposition of tax. See, e.g., *State ex. Rel. Seaboard A.L.R. Co v. Gay*, 160 Fla. 445 (Fla. 1948). Thus, we construe the statute not to include the lender’s cancellation of debt

² Florida Dep’t of Revenue, *Technical Assistance Advisement No. 08B4-006, Documentary Stamp Tax – “Short Sales” of Florida Real Property*, 1 (Sept. 23, 2008), available at <https://taxlaw.state.fl.us/wordfiles/DOC%20TAA%2008B4-006.pdf> (last visited Feb. 18, 2009).

³ *Id.* at 4.

⁴ *Id.* at 3.

⁵ *Id.* at 4.

as consideration in the instant case. However, the Legislature may choose to clarify the application of the statute through legislation.

Effect of proposed changes

The purpose of this bill is to clarify the law governing the calculation of documentary stamp tax owed when real property is conveyed via short sale. CS/HB 55 amends s. 201.02, F.S., to provide that consideration does not include the unpaid indebtedness that is forgiven or released by a mortgagee holding a mortgage on the property. The bill defines a short sale as the purchase and sale of real property in which:

- The grantor's (seller's) interest in the real property is encumbered by a mortgage or mortgages securing indebtedness in an aggregate amount greater than the purchase price paid by the grantee (buyer);
- A mortgagee releases the real property from its mortgage in exchange for a partial payment of less than all of the outstanding mortgage indebtedness owing to the releasing mortgagee;
- Neither the releasing mortgagee nor any person related to the releasing mortgagee receives any interest in the property transferred; and
- The releasing mortgagee is not controlled by or related to the grantor or the grantee, and the grantor and the grantee are not controlled by or related to each other.

This bill codifies the Department of Revenue's advisement conclusion that in short sale transactions, cancellation of debt is not consideration used to determine documentary stamp tax.

B. SECTION DIRECTORY:

Section 1: Amends s. 201.02, F.S., to provide that the taxable consideration for a short sale transfer does not include the unpaid indebtedness that is forgiven or released by a mortgagee holding a mortgage on the property. Additionally, the bill defines a short sale.

Section 2: Provides an effective date of July 1, 2009.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

On February 27, 2009 the Revenue Estimating Conference evaluated CS/HB 55 and concluded that the bill will not have a fiscal impact because it codifies existing Department of Revenue procedures.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

On February 27, 2009 the Revenue Estimating Conference evaluated CS/HB 55 and concluded that the bill will not have a fiscal impact because it codifies existing Department of Revenue procedures.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Because this bill provides that documentary stamp taxes are only paid on the actual consideration paid or given in exchange for real property rather than the full outstanding balance of the mortgage, and because documentary stamp taxes are generally paid by the buyer of the real property, this bill may decrease the cost of taxes a buyer will pay.

Moreover, because documentary stamp taxes are part of the overall cost of purchasing property, the decreased documentary stamp taxes that may occur as a result of this bill would decrease the total cost to the buyer to purchase the property. In the aggregate the decreased costs to purchase property may have a marginal stimulative effect on short sale transactions.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

None.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES

On March 4, 2009, the Economic Development Policy Committee adopted an amendment which provided that the taxable consideration for a short sale transfer does not include unpaid indebtedness that is forgiven or released by the mortgagee holding the mortgage on the property. Additionally, the amendment provides a definition for the term "short sale."