

Bill lets towns tax sale of homes

Tuesday, November 6, 2007

By HEATHER HADDON

HERALD NEWS

As the housing market goes ice cold, local homeowners finding few bites on their "For Sale" signs could face a new obstacle -- hundreds of dollars in additional taxes charged for selling their homes.

A proposal under consideration by the Legislature would allow municipalities to tax property sales by as much as 0.1 percent. That boils down to \$462.50 on a property valued at \$462,500, the average sale price in North Jersey in 2007, according to the National Association of Realtors.

Proponents say the small hit for homeowners would generate thousands of dollars in revenue for cash-strapped local governments. Municipalities raise most of their revenue through property taxes, and this year, the state placed new caps on how much towns can raise their taxes.

"They've straitjacketed local governments," said William Dressel Jr., executive director of the state League of Municipalities.

For real estate agents and sellers, the proposal comes at the worst possible time, just as buyers have vanished. The New Jersey Association of Realtors has waged a high-profile campaign against the measure, running radio ads and collecting 15,000 signatures from residents in opposition, according to a spokesman.

Lawmakers representing Jersey City, one of the state's hottest housing markets, wrote the bill last year. It has yet to move from committee, but critics fear that lawmakers could pass the bill during the lame-duck legislative session beginning this week.

"This is the last thing we need to drag down the real estate market," said Kenneth Lombardi, a mortgage broker working in Wayne.

In Passaic County, the number of existing homes languishing on the market nearly doubled between October 2005 and October 2007, according to the Garden State Multiple Listing Service. Sales dropped by 25 percent during the same period.

Last year, when legislators first proposed the tax, the market hadn't fallen so flat. The proposal is based on a state fee charged whenever owners sell their property. Seeing it as a lucrative revenue generator, the state has raised it by more than 80 percent since 2003, according to the Realtors Association.

As it now stands, sellers of a \$462,500 home pay \$3,815 in the state realty transfer tax. These fees are often passed on to buyers, real estate agents say.

Under the proposed legislation, local governments could also tax real estate sales. If the state passes the bill, interested municipalities would have to petition to adopt the tax by putting it up for a local vote.

Currently, New Jersey allows local governments the option of taxing patrons of parking lots and hotels. At least three Passaic County municipalities now tax about 3 percent when someone stays at a local hotel.

Last month, Clifton raised nearly \$22,000 from the three hotels within its borders, according to the state Division of Taxation.

Dressel, of the League of Municipalities, said local taxes are vital in a state that forces municipalities to rely so heavily on property taxes.

But unlike hotel visits, realty transactions are already subject to dozens of fees. Those buying a house typically shell out at least 3 percent of the purchase price to their lender, lawyer, appraiser, broker, title agency and the state. Mary Ann Sgobba, a Totowa real estate agent, said that one of her buyers paid more than \$15,000 in closing costs on a \$329,900 property in Hackensack this month.

"I'm a little taken back, too," said Sgobba, thumbing through the purchase documents. "Some people aren't aware of how it adds up, especially in the last few years."

Since 2000, the emergence of new kinds of mortgages has allowed people to buy homes with little money down.

Now, after thousands of Americans defaulted on their loans, banks stopped offering those mortgages. This reversal has severely hampered the ability of lower-income people to buy a house and caused a growing panic among mortgage officers and Realtors.

Some state officials said on Monday that they don't expect the tax to pass.

"We don't view (the tax) as a panacea," said Dressel, who lobbied for 25 years to get the hotel tax passed. "But it's money that can be used to offset property taxes."

Closing costs

The state legislature is considering a proposal to add a local tax on property sales. Those buying a home already are subject to many fees, and sellers typically tack on additional costs--such as the proposed tax--to the purchase price. Here's what the client of a Totowa realtor paid this month in closing costs on her \$329,900 home in Hackensack:

Application fee for primary mortgage company: \$795

Application fee for secondary mortgage company: \$365

Tax service fee: \$81

Flood certification fee: \$26

Hazard insurance: \$210

Mortgage insurance: \$709

Local taxes for three months: \$2,785

Escrow for future city taxes: \$3,050

Lawyer's fee: \$875

Appraiser's fee: \$156

Recording fee: \$310

Surveyor's fee: \$625

Mortgage points: \$3,299

Mortgage interest pre-payment: \$1,965

Miscellaneous fees (copies, mailing): \$75

Total: \$15,326

The estimated cost of the proposed local realty transfer fee: \$329.90