

Real Estate Advisory: Realty Transfer Taxes: What to Know and How to Minimize their Impact

Anyone who has ever bought or sold real estate is familiar with the raft of extra expenses and “closing costs” that come along with the transaction. Among the most significant closing costs is realty transfer tax.

Realty transfer tax is imposed by both the Commonwealth of Pennsylvania and the municipality in which the real estate is located, when real estate is transferred by deed, long-term lease (greater than 30 years) or other recorded document. Read on for a primer on the tax — and what to expect when you transfer real estate in Pennsylvania.

How much is the tax?

[In Pennsylvania](#), 1% of the value of the real estate (based upon the actual consideration paid, the computed value of the real estate or in certain instances an appraisal) is paid to the state and typically 1% is paid to the local government. Local municipalities, however, may impose additional realty transfer taxes above the traditional 1%. For example, Pittsburgh’s realty transfer tax is 4%. Thus, when real estate is transferred within the City of Pittsburgh, 5% of the value of the real estate is paid in realty transfer tax.

The computed value of the real estate is determined by taking the real estate’s assessed value as determined by the county in which it is located and multiplying that number by the common level ratio real estate valuation factor as determined by the State Tax Equalization Board in effect at the time the conveyance document is executed. The Department of Revenue updates the common level ratio every year on [July 1st](#).

Who pays it?

In Pennsylvania, it is customary for the buyer and the seller to split the payment realty transfer tax, sometimes equally, but the cost to each party may be negotiated. For example, in order to entice buyers to purchase real estate in high tax municipalities, the seller may offer to pay all or most of the transfer tax in the event the sale is consummated.

What does it benefit?

In Pennsylvania, most of the tax goes to the state’s General Fund, while 15% is dedicated to the Keystone Recreation, Park and Conservation Fund.



Derek J. Markle
djm@muslaw.com

Who's exempt?

Certain parties and transactions are exempt from the tax, such as transfers between husband and wife, lineal family members, transfers by testate or intestate succession, or corrective or confirmatory deeds. In most situations, however, parties should expect to pay transfer tax.

A county recorder will not accept an instrument for recording without collecting payment for realty transfer tax or the attachment of a Realty Transfer Tax Statement of Value to the recorded instrument which claims an exemption to the payment of realty transfer tax.

Minimizing Your Realty Transfer Tax Burden

The statutory provisions of Pennsylvania law relating to real estate transfers are complicated. In most situations, transfer tax is unavoidable, however, Pennsylvania law provides ways to structure certain real estate transactions to avoid or minimize the amount of realty transfer taxes that must be paid upon transfer.

As a best practice for businesses and other organizations considering the acquisition or disposition of real property in Pennsylvania, a knowledgeable attorney should be part of the process from the beginning. They will provide guidance during negotiation of transaction documents and ensure that the transaction is structured to minimize the amount of real estate transfer taxes and other closing costs for which their client is responsible.

For assistance with realty transfer taxes and all real estate transactions, reach out to Meyer, Unkovic & Scott's Derek Markle at djm@muslaw.com or (412) 456-2878