



*Senate of Pennsylvania*

*Senator Jim Ferlo*  
*38<sup>th</sup> Senatorial District*

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**MEMO**

**Date:** *January 23, 2012*  
**To:** *All Senators*  
**From:** *Senator Jim Ferlo*  
**Subject:** *Co-sponsorship for Closing 89-11 Realty Transfer Tax Loophole*

Dear Colleagues:

In the near future I plan introduce legislation amending Article XI-C of the Tax Reform Code of 1971 to close the so-called “89-11 loophole.”

The loophole permits a “real estate company” to be formed by the seller and buyer of a property, creating what is known as an 89-11 relationship (89 percent of the company is owned by the buyer, while 11 percent is retained by the seller) for a period of three years.

Once the three year period expires, the remaining 11 percent is transferred to the buyer completing the full sale of the building. While this meets the letter of the state law to avoid triggering the realty transfer tax it is, simply put, an exploitation of a loophole that should be closed.

The legislation is modeled after Philadelphia’s realty transfer tax ordinance which closed the loophole in 1999 and has been effective in preventing tax avoidance.

The amendment will require the tax to be paid if a legally binding commitment is made between the parties to the transfer more than 90% of the property to the buyer within a 3 year period after the creation of the real estate company.

If you would like to co-sponsor this legislation please e-mail Anne Laird Huber at [alairdhuber@pasenate.com](mailto:alairdhuber@pasenate.com) or call 787-6123.