

## Realty Transfer Tax

Pennsylvania's Local Tax Enabling Act (Act 511 of 1965) authorizes all Pennsylvania municipalities to levy a **realty transfer tax** on transactions involving the sale or transfer of real estate or interest in real estate within their borders.

Thousands of Pennsylvania municipalities use the tax, as do hundreds of school districts, including the Chester Upland School District. According to Commonwealth statistics, Chester is the only municipality in Delaware County that does not currently use the tax. The City has instead levied a \$10 per transaction charge.

Effective \_\_\_\_\_, 2023, the City will repeal the \$10 charge and begin levying a 1.5 percent realty transfer (or deed transfer) tax on all transactions involving the transfer or sale of real estate or interest in real estate within Chester.

The 1.5 percent local realty transfer tax rate will be split evenly between the City of Chester and the Chester Upland School District. It is in addition to the 1.0 percent realty tax already levied by the Commonwealth of Pennsylvania, for a total tax rate of 2.5 percent.

As required in Pennsylvania law, the Delaware County Recorder of Deeds will collect Chester's realty transfer tax, as it already does for the Commonwealth and all other Delaware County jurisdictions. The County will withhold two percent of the amount collected to cover its collection costs.

### ***Example: John sells his house to Brian for \$100,000***

The total tax amount is \$2,500 (2.5% of \$100,000) with \$1,000 (or 1.0 percent) due to the Commonwealth of Pennsylvania; \$750 due to the City of Chester; and \$750 due to the Chester Upland School District. John and Brian are jointly liable for the total amount due, and there is usually an agreement reached at closing on how John and Bill will split the tax bill.

While there is limited historical information to project how much revenue the realty transfer tax will generate for the City, the Chester Upland School District projected that its 0.5 percent tax would generate \$500,000 in the 2022-2023 school year. At that level, the City's 0.75 percent realty transfer tax would generate \$750,000 over the course of 12 months and \$375,000 for the remainder of 2023.

The City will use the realty transfer tax to cover the cost of providing vital and necessary services, such as public safety coverage, through its General Fund.

## Frequently Asked Questions: Realty Transfer Tax

### ***Is this a new tax?***

No, Pennsylvania law has authorized municipalities to use the realty transfer tax for decades. Thousands of municipalities already use the tax, as do hundreds of school districts, including the Chester Upland School District. When Upper Darby Township started using the real estate transfer tax in 2022, Chester was left as the only Delaware county municipality that does not use the tax. Chester will join the other 48 municipalities in levying the tax on \_\_\_\_\_, 2023. The \$10 per transaction fee that Chester previously charged will be eliminated.

### ***Which transactions will be taxed?***

Other than a few exceptions set by Pennsylvania law<sup>1</sup>, the tax will be levied on any transactions involving the sale or transfer of real estate or interest in real estate in Chester. This includes transactions where the buyer and seller are located outside the City, but the property is in Chester. Real estate transferred through a sale will be taxed based on the sale price, plus any encumbrances or liens. Transfers in which property changes hands for a substantially smaller amount – for example, those transferred by gift or foreclosure – are taxed at the property's assessed value, adjusted to market value.

### ***What's the new tax rate?***

By ordinance, City Council has established a 1.50 percent local realty transfer tax rate split evenly between the City (0.75 percent) and the Chester Upland School District (0.75). This 1.50 percent local tax is in addition to the Commonwealth's 1.0 percent tax for a total realty transfer tax rate of 2.5 percent – the same tax rate used in Upper Darby Township.

### ***How is the tax collected?***

As required in Pennsylvania law, the Delaware County Recorder of Deeds will collect the realty transfer tax when any documents related to the property transfer are recorded. The County will withhold two percent of the amount collected to cover its collection costs.

### ***How much revenue will this tax generate, and how will the City use the money?***

While there is limited historical information to project how much revenue the realty transfer tax will generate for the City, the Chester Upland School District projected that its 0.5 percent tax would generate \$500,000 in the 2022-2023 school year. At that level, the City's 0.75 percent realty transfer tax would generate \$750,000 over the course of 12 months and \$375,000 for the remainder of 2023.

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<sup>1</sup> Exceptions include real estate transferred to non-profit housing or industrial development corporations or those transferred to the federal, commonwealth or local governments by gift, deed, or condemnation.