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Los Angeles' United to House LA Measure (Measure ULA), enacted by city voters in November 2022, implements a significant new transfer tax on high-value real estate transfers or sales throughout the city of Los Angeles. Beginning April 1, 2023, the new law will impose a 4% tax on all residential and commercial properties that are transferred or sold for more than \$5 million but less than \$10 million, and a 5.5% tax for all such properties transferred or sold for \$10 million or more.

Additional tax revenues to be generated by the new tax are estimated to be between \$600 million to \$1.1 billion annually, which the city will use to fund affordable housing and tenant assistance programs.

## **To Whom Does the Tax Apply?**

In addition to outright sales of real property, the new tax may also apply to certain transfers of interests in legal entities that result in a change of ownership of real property. However, there are some exemptions; for example, transfers of property to certain nonprofit entities, community land trusts, and limited-equity housing cooperatives may be exempt from the new tax. Additionally, certain transfers of property that result in a mere change in identity or form of ownership are also exempt.

## **How Is the Tax Calculated?**

The additional tax will be imposed on the *entirety* of the value of the property sold, not only on the amounts in excess of the \$5 million and \$10 million thresholds, and without regard to whether the property is sold at a gain or loss, and without any reduction for debt on the property. The property value thresholds are subject to annual Consumer Price Index (CPI) adjustments. The new tax is in addition to the existing 0.56% combined city and county transfer taxes, which the seller customarily pays (although this is typically negotiated between the buyer and seller).

## **Takeaways**

Unless successfully challenged by property owners and industry groups who claim the tax is unconstitutional, Measure ULA will add a material cost to sales of real estate in Los Angeles. Individuals and businesses with interests in real property in the city of Los Angeles should consider consulting with legal and tax advisors to evaluate ownership structures and real property sales and other transfers (including transfers of interests in legal entities that own real property) going forward.

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