Land Transfer Tax – Hurts the Economy

Issue

The Alberta Real Estate Association (AREA) values municipalities' work in building vibrant communities for Albertans, and understands creating such communities requires a predictable, sustainable revenue source. AREA aspires to collaborate with municipalities as they serve Albertans and explore revenue options.

Land transfer tax (LTT) is a tax paid provincially or municipally by purchasers of land when that land is sold, with the amount typically proportional to the value of the purchase. The tax is colloquially known as the "home buyers' tax." Land transfer tax cannot be added to a buyer's mortgage and must instead be paid up front, typically when the transfer is registered. Often, the buyer's lawyer pays the land transfer tax on behalf of the buyer, requiring them to pay the lawyer closing funds later which cover the land transfer tax expenses. This means less money for buyers to put towards their down payment, and greater buyer debt. Currently, there are no land transfer taxes in Alberta.

While revenues from land transfer tax may sound appealing to governments, results have shown these revenues are volatile, as reflected by the housing market, and often lead to negative economic impacts in the regions where they are implemented. In addition, land transfer tax encourages urban sprawl and impacts housing affordability for low-income Albertans and first-time home buyers.

Alberta REALTORS® want to ensure governments have the information and facts they need to make an informed choice against implementing a land transfer tax or fee.

Alberta REALTOR® Position

Alberta REALTORS® oppose the implementation of a land transfer tax provincially and in Alberta municipalities. Research shows the tax:

- Hinders housing affordability and presents barriers to home ownership by adding additional costs to a home purchase.
- Negatively impacts the economy as a result of fewer property transactions and reduced economic spin-off from property sales (spending on renovations, appliances, furniture, and other related property expenses.)
- Leads to job loss – as a result of fewer property transactions and ancillary spending.
- Causes undue pressure on transit systems and transportation infrastructure as more people buy homes outside major municipalities to avoid land transfer taxes, meaning longer commutes and busier roads and transit systems.

Background

In Alberta, the power to generate additional revenues from taxation, along with the specific format those taxes would take, are common topics in sustainability discussions between municipalities and the provincial government. Specifically, land transfer tax was discussed in the context of Alberta and its prominent municipalities in the 2007 Report of the Minister's Council on Municipal Sustainability, authored by Mandel, Bronconnier, Hawkesworth and Johnson on behalf of Edmonton, Calgary, the Alberta Urban Municipalities Association (AUMA) and the Alberta Association of Municipal Districts and Counties (AAMDC). The report highlighted difficulties municipalities are experiencing in adequately funding public services and recommended municipalities use land transfer tax to stabilize operational funding or to fund capital projects.

Land transfer tax has already been implemented provincially in British Columbia, Manitoba, Ontario, Quebec, New Brunswick, Newfoundland and Labrador, and locally in Toronto, Montreal and several Nova Scotia municipalities with negative impacts. In Toronto, for example, new buyers have opted in significant numbers to live outside the city proper in an effort to avoid land transfer taxes.

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Premier Rachel Notley announced her government has cancelled former premier Jim Prentice's proposed increases to land title taxes in the 2014-15 budget, in the interests of protecting Albertans. AREA supports this decision.

Concerns – Provincially & Locally

Under Alberta's *Municipal Government Act*, municipalities' revenue sources are largely limited to property taxes and user fees, with the exception of some special levies to fund specific applications. Amendments were made to the *Municipal Government Act* (Bill 20) in spring 2015 and additional amendments related to taxation authority are expected to be reviewed in the fall 2015 legislature sitting. Changes within this *Act* could provide municipalities with the authority to implement new taxes, including a municipal land transfer tax

The provincial government is currently working on its 2015-2016 budget, which could see the implementation of new provincial taxes. In addition, the platform on which the government ran suggests the province will be continuing work with Edmonton and Calgary to ensure the city charter process is developed. Both the budget process and the city charter process offer more potential opportunities for the introduction of land transfer taxes.

Implications of land transfer tax

1. Reduces Affordability and Creates Barriers to Home Ownership

The Toronto Example

Home buyers in Toronto are subject to both provincial and municipal land transfer taxes, which are applied progressively to the value of a transaction as per the chart below:

Provincial land transfer tax (PLTT)	Municipal land transfer tax (MLTT)
First $55,000 – 0.5% PLTT	First $55,000 – 0.5% MLTT
Over $55,000 – 1% PLTT	Over $55,000 – 1% MLTT
Over $250,000 – 1.5% PLTT	N/A
Over $400,000 – 2% PLTT	Over $400,000 – 2% MLTT

Using the average Alberta residential sale price of approximately $400,000[1], the following example shows the cost, over and above the price of a home, which buyers face in Toronto[2]:

First $55,000 - $275 PLTT	**$275 MLTT = $550**
Over $55,000 - $1,950 PLTT	$3,450 MLTT = $5,400
Over $250,000 - $2,250 PLTT	
Total	**$8,200[3]**

[1] *Price reflects year-to-date residential sales activity reported through the MLS® Systems of real estate Boards/Associations in Alberta as of April 30, 2015.*

[2] *Both the Province of Ontario and the City of Toronto offer some form of rebate on Land Transfer Tax for first-time buyers.*

[3] *Courtesy www.landtransfertaxcalculator.ca*

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An Ipsos Reid study (2014) revealed that land transfer tax makes homeownership a difficult dream to fulfill. Highlights from this study include:

- 85% of Toronto residents agree that the municipal land transfer tax makes home ownership more difficult to achieve
- 71% of Torontonians say that that the municipal land transfer tax would delay their decision to purchase a home
- 70% of residents in the 416 area code say that the municipal land transfer tax would make them incur more debt in order to pay the tax
- 72% say that the municipal land transfer tax would make them spend less on renovations, furniture or appliances fort the home they would purchase
- 54% say that if they didn't have to pay the municipal land transfer tax, they would put that savings towards their down payment; 37% would use it to pay down debt

2. Hurts the Economy & Jobs:

Despite the initial appeal of the revenue this tax raises for government ($350 million for the City of Toronto in 2013), research by Altus Group (2014) has shown that municipal land transfer tax has cost Toronto 15,000 jobs and $2.3 billion in economic activity between 2008 and 2013. Toronto has also experienced:

- A loss of 38,278 resale home transactions (16% decrease in sales volume)
- A reduction of $1.2 billion in GDP
- A loss of 14,934 full time jobs
- A loss of $772 million in wages and salaries

Simply put, the costs of land transfer tax have forced families to stay put rather than relocate, or buy a home outside of the city. As a result, the tax has deprived the city of the ancillary expenditures that are typical of a house move, such as fees to professionals involved in the transaction (i.e. lawyers, appraisers, REALTORS®, surveyors), taxes to government, renovations, new appliances and furnishings.

Toronto has lost much more than it has gained because of land transfer tax. The revenue received from the tax falls far below the economic benefit that would have been realized without the tax.

3. Municipal Land Transfer Tax Causes Additional Pressure on Transit Systems and Transportation Infrastructure

The research shows that resale home transactions in Toronto dipped immediately following the introduction of municipal land transfer tax but found no similar dip in municipalities immediately outside of Toronto's border. Many Ontarians are opting to live in outlying communities, accepting long commutes each day in order to obtain affordable housing. Introduction of a municipal land transfer tax in cities like Calgary and Edmonton would likely magnify existing traffic problems on major service-ways as Albertans move outside of the city proper to live in outlying communities not subject to the municipal land transfer tax.

4. Government Revenue Variability

According to a C.D. Howe study (Dachis, 2012), "land transfer tax is likely more politically appealing to politicians than is a broad-based property tax because few residents are subject to a land transfer tax in a given year, compared with the population of homeowners generally. However, because it is a transaction tax, a land transfer tax is economically distorting in a number of ways."

- Land transfer tax raises the cost of moving, reducing homeowners' propensity to relocate, therefore reducing the potential earnings from land transfer tax.

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- A land transfer tax has a higher degree of year-over-year variability than other major revenue sources, due to cyclical real estate market fluctuations.

Such inconsistencies make budgeting extremely difficult.

Recommendation

Alberta REALTORS® urge elected officials to oppose implementing land transfer taxes and to instead pursue more equitable means of achieving municipal sustainability.

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