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City of Toronto's Land Transfer Tax – Good, Bad or Merely Tolerable?

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RYERSON UNIVERSITY

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A Report Prepared by:

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EXECUTIVE SUMMARY

This report provides background on the Land Transfer Tax (LTT) which the City of Toronto imposed on real estate transactions starting in February 2008. It documents what is known about the tax including issues where there is disagreement to help the reader come up with an informed opinion on whether the city's LTT is "good", "bad" or "merely tolerable".

The report concludes that the City of Toronto's Land Transfer Tax is a tolerable tax, as taxes go. It produces sizeable revenue (on the upside of the housing market cycle), is transparent, and is efficient to administer.

A lack of equity/fairness is a key fault of the tax. In particular, no linkage exists between the payers of the tax and beneficiaries of the municipal spending funded by the tax. That is, the LTT violates the benefits received tax equity principle. Nor is there a direct relationship between the buyers of new and resale homes and their incomes or wealth. The tax also is not in accordance with the ability to pay tax equity principle.

A second flaw of the Toronto LTT is the cyclical nature of its annual revenue stream. When the housing market is robust, like it has been for more than a decade, revenues generated by the tax will be buoyant. In contrast, tax revenues will decline when the next downturn in the market inevitably arrives. The dependence of city spending on an unstable tax source like the LTT complicates fiscal budget planning as the spending tap cannot be turned off quickly in response to lower tax revenues.

While the LTT is at odds with economic efficiency, economic impacts and urban form impact considerations, the report suggests that the existing literature has exaggerated the quantum of these negative ramifications.

Should the City of Toronto continue to levy the LTT, or should other municipalities in the Greater Toronto Area (GTA) be allowed to levy this tax? The report's response to both questions is "no". While the LTT is a tax that homebuyers tolerate, the property tax is a much better way to fund municipal expenditures.

1. INTRODUCTION[1]

This report provides background on the Land Transfer Tax (LTT) which the City of Toronto imposed on real estate transactions starting in February 2008. It documents what is known about the tax including issues where there is disagreement to help the reader come up with an informed opinion on whether the city's LTT is "good", "bad" or "merely tolerable". The knowledge base which was reviewed includes the existing literature and additional statistics which were compiled by the author.

The discussion here is limited to the purchase and sale of homes which are defined in the city LTT legislation to be single-family residences. This encompasses the vast majority of real estate transactions.[2] Single-family residences include single- and semi-detached houses, townhouses and condominium apartments.

1.1 Details of Toronto's LTT

The LTT is charged on all residential and non-residential properties which were purchased in Toronto on or after February 1, 2008:

- For properties classed as single-family residences, the rate is a little under 1 percent for the first $400,000 of value and 2% on the portion of value above $400,000 for all buyers except first-time purchasers;
- First-time purchasers of single-family residences qualify for a rebate of the tax on the first $400,000 of value;
- The rates of the tax on purchases of commercial and industrial properties are somewhat lower than those for single-family residences valued above $400,000; and
- The tax is paid by purchasers in their closing costs.

Properties which are purchased in areas of the Greater Toronto Region (GTA) outside the city of Toronto (that is, which are in the "905" area code municipalities) do not incur a municipal LTT although all real estate purchases in Ontario are subject to a provincial LTT.[3]

[1] This report was authored by Dr. Frank A. Clayton, Senior Research Fellow, CUR. The opinions expressed in this research report are those of the author only and do not represent opinions and views of either CUR or Ryerson University.
[2] The taxation of commercial and industrial real estate purchases is an important issue in its own right. Under the city's LTT, purchases of rental apartment and townhouse projects are treated as commercial properties.
[3] The "905" areas encompass all of the local municipalities which are located in the Regions of Halton, Peel, York and Durham, with Mississauga, Vaughan, Markham, and Pickering sharing a common boundary with the city of Toronto.

1.2 Criteria for Judging the Desirability of Toronto's LTT

It is helpful to appraise Toronto's LTT within an analytical framework which is typically used by economists to evaluate an existing or proposed tax which addresses the following criteria:

- **Revenue generation** – Does the LTT produce a meaningful amount of revenue for the city of Toronto? Is the revenue stream stable or volatile reflecting shorter-term real estate market and economic conditions?
- **Transparency** – Do potential home purchasers have a clear understanding of the LTT and how it is calculated?
- **Administration** – Is the LTT easy to administer with fairly low collection and enforcement costs?
- **Equity** – Is there a correspondence between taxpayers paying the LTT and the benefits which they receive from the spending that is supported by the tax (the benefits principle)? Is there a correspondence between the LTT paid and taxpayers' ability to pay?
- **Economic efficiency** – Does the LTT result in households or businesses shifting from their preferred to a second best course of action thereby diminishing their economic wellbeing?
- **Economic impact** – Does the LTT result in losses in economic activity, incomes and jobs in the GTA as a whole or in the city of Toronto?
- **Urban form impact** – Does the LTT discourage compact, intensified urban growth patterns in the city of Toronto and the GTA which are objectives of provincial and municipal land use planning policies?[4]

1.3 Report Structure

This report has three chapters in addition to the Introduction:

- Chapter 2 looks at two essential pieces of background information regarding who pays the tax and its impact on sales.
- Chapter 2 assesses the LTT transactions; against tax evaluation criteria; and
- Chapter 3 assesses the property tax against the same criteria.

[4] These criteria are based upon a review of tax evaluation criteria in the following documents: Justin M. Ross, A Primer on State and Local Tax Policy: Trade-Offs among Tax Instruments (Arlington: Mercatus Center at George Mason University, 2014), 5-9, and Enid Slack, "Alternative Approaches to Taxing Land and Real Property," in Perspectives on Fiscal Federalism, eds. Richard M. Bird and François Vaillancourt (Washington, D.C.: World Bank Institute, 2006), 1-2.

2. Essential Background Information for the Analysis

This section discusses two issues pertaining to the LTT before getting to the analysis of the Toronto LTT against the evaluation criteria: who actually pays the tax (that is, who bears the tax's burden) and whether the tax results in a reduction in the volume of residential sale transactions in the city of Toronto or the GTA.

The economic efficiency and equity criteria require an understanding of the parties who ultimately pay the tax. Home purchasers are legally obliged to pay the Toronto LTT as part of their closing costs. If, however, the tax causes prices in the housing marketplace to adjust, the purchasers may be able to shift part of or the entire tax burden to home sellers. In economic jargon, what is important is who ultimately bears the burden of the tax – the buyer, the seller, or a sharing of the burden between the buyer and the seller.

Pinpointing the person who bears the burden of the Toronto LTT can be explored through an analysis of home prices before and after the imposition of the tax:

- Buyers bear the tax burden if the LTT does not change home prices from what they would have been without the tax;
- Sellers bear the tax if it reduces home prices by the full amount of the tax; or
- Buyers and sellers share the burden of the LTT if home prices drop from what they would have been without the tax by less than the LTT payable on the transactions.

The economic efficiency, economic impact and urban form tax evaluation criteria require an understanding of how the LTT affects the volume of sale/purchase transactions in the city of Toronto and in the "905" areas which are adjacent to the city on three sides, where transactions are not taxed. The volume of sales may be impacted in various ways by the city's LTT:

- Sales transactions that would have occurred in the city of Toronto shift to adjacent "905" municipalities with a corresponding shift in households from the city to the "905" areas;
- Households that would have moved within the city of Toronto decide to remain where they are and some renovate their current homes instead of moving; or
- A combination of the above.

2.1 Who Actually Pays the LTT?

This section summarizes what the literature tells us about who bears the burden of the Toronto LTT and provides insight from the analysis of MLS average sales price data.

2.1.1 David Nowlan (2007)

The City of Toronto retained Professor David Nowlan to undertake a study of the economic implications of the LTT prior to making the decision to implement the tax.[5] Nowlan's best estimate was that about three-quarters of the tax across the whole city would be borne by sellers in the form of lower property prices, leaving about 25 percent to be borne by purchasers. In areas like the central area which have unique qualities of location or amenities, the sellers' share would be smaller. Conversely, in areas facing greater competition from adjacent "905" areas, the sellers' share would be larger.

Nowlan also opined that a household selling one property in the city and buying another one in the city would pay both the seller's and the buyer's side of the LTT.

2.1.2 C.D. Howe Institute (2008) – Econometric Analysis

The C.D. Howe Institute published an empirical evaluation of Toronto's LTT in late 2008, just a few months after the tax was implemented.[6] The study undertook an econometric analysis of a data base consisting of sales of MLS single-family homes between January 2006 and August 2008 for properties which were located in a band covering three kilometers on each side of the city of Toronto boundary.[7] The data base was provided by the Toronto Real Estate Board (TREB). The analysis concluded:

- The LTT caused about a 1.5 percent decline in the average sales price of a single-family home in the portion of the study band situated in the city of Toronto (an average reduction of $6,397).
- This decline was comparable to the estimated average rate of the LTT (about 1.1 percent) for an average-priced home sold. It suggested to the authors that the sellers bear the burden of the tax although purchasers initially pay the tax in their closing costs.
- Single-family homes which were priced below $400,000 experienced a negligible fall in prices while more expensive homes had a reduction on the order of 2.2 percent.

  As noted earlier, first-time purchasers of homes valued at less than $400, 000 got a rebate of the LTT which they paid, so this finding is not surprising.

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[5] David M. Nowlan, "Economic Implications of the Proposed City of Toronto Land Transfer Tax," Attachment 1 to New Taxation Measures Supplemental Report – City of Toronto Act 2006, on Toronto City Council agenda, July 16, 2007. See pages ii and 8 for his conclusions about who pays the tax.

[6] Benjamin Dachis, Gilles Duranton, and Michael Turner, Sand in the Gears: Evaluating the Effects of Toronto's Land Transfer Tax, Commentary No. 277 (Toronto: C.D. Howe Institute, 2008), 11, 12, and 14. This study defines single-family residential properties as residential properties which are sold (excluding condominiums) and rental residential properties.

[7] Econometric analysis applies statistical techniques to economic data to give empirical content to economic relationships (Wikipedia, November 24, 2014).

These conclusions apply to the geographic band of Toronto homes within three kilometres of the city's boundary with the "905" municipalities.

While the econometric analysis covered only the 3 kilometer band, the study also plotted average sale prices during the months of January-August 2007 and 2008, and the year-to-year percent change by distances up to 10 kilometers on both sides of the Toronto/905 border. It concluded: "We see a distinct drop in the prices of houses in Toronto relative to neighboring suburban houses."[8]

2.1.3 C.D. Howe Institute (2012) – Econometric Analysis

The C.D. Howe Institute published a second study a few years after the City of Toronto implemented the LTT. Its econometric analysis covered the period January 2005 to June 2012 and so was based on a more robust MLS data base than was the earlier study. While the study was focused on the impact of the LTT on the number of sales transactions and did not consider price effects, it does appear to support the conclusion of the 2008 analysis which asserted that the negative price effects were centred on higher-value homes:

> This suggests that sellers of homes in areas with lower average values are less willing or able to accept sale prices that are affected by the LTT than are sellers in areas with higher-value homes.[9]

Like the earlier C.D. Howe Institute study, this study's geographical coverage for the econometric analysis is limited to a band along Toronto's border with the neighbouring 905 municipalities.

2.1.4 C.D. Howe Institute (2012) – Average MLS Sales Price Data for Single-Family Homes

Many readers will have limited understanding of the "black box" of econometrics and may be wary of the findings of this kind of analysis without further support. Happily, the 2012 study supplied some meaningful summaries of TREB data that can provide non-econometric insights into who pays the LTT – the buyer, the seller, or the buyer and seller combined.

Figure 1 provides average MLS price data from the C.D. Howe Institute's 2012 study. The figure shows average prices for the city of Toronto as a whole, for all areas of the 905 regions within the GTA and for a band of home sales on both sides of the boundary between the city and adjacent 905 municipalities. These prices are provided for both before and after Toronto's LTT was implemented (2003/2007 and 2008/June 2012, respectively).

The data show that average sale prices in both the city and the 905 areas increased by about the same percentages after the LTT was imposed, both for the band around the border and the entire city. Other things being equal, the data suggest that average prices have been unaffected by the tax with purchasers bearing all the LTT in their closing costs.

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[8] Dachis, Duranton, and Turner, Sand in the Gears, 12.
[9] Benjamin Dachis, Stuck in Place: The Effect of Land Transfer Taxes on Housing Transactions, Commentary No. 364 (Toronto: C.D. Howe Institute, 2012), 11.

Figure 1
Average Prices of MLS Single-Family Homes,Toronto and GTA 905 Areas, Before and After the Land Transfer Tax

	Entire GTA	
	Toronto	**905 Areas**
Pre-LTT (2005 - 2007)	$488,704	$400,626
Post-LTT (2008 – June 2012)	$608,912	$500,754
Percent Change	24.60%	25.00%

	Band adjacent to the Border of City of Toronto and 905 Areas	
	Toronto	**905 Areas**
Pre-LTT (2005 - 2007)	$367,802	$413,395
Post-LTT (2008 – June 2012)	$457,168	$524,979
Percent Change	24.30%	26.90%

Source: Benjamin Dachis, *Stuck in Place: The Effect of Land Transfer Taxes on Housing Transactions* , C. D. How e Institute, October, 2012, Table A-1.

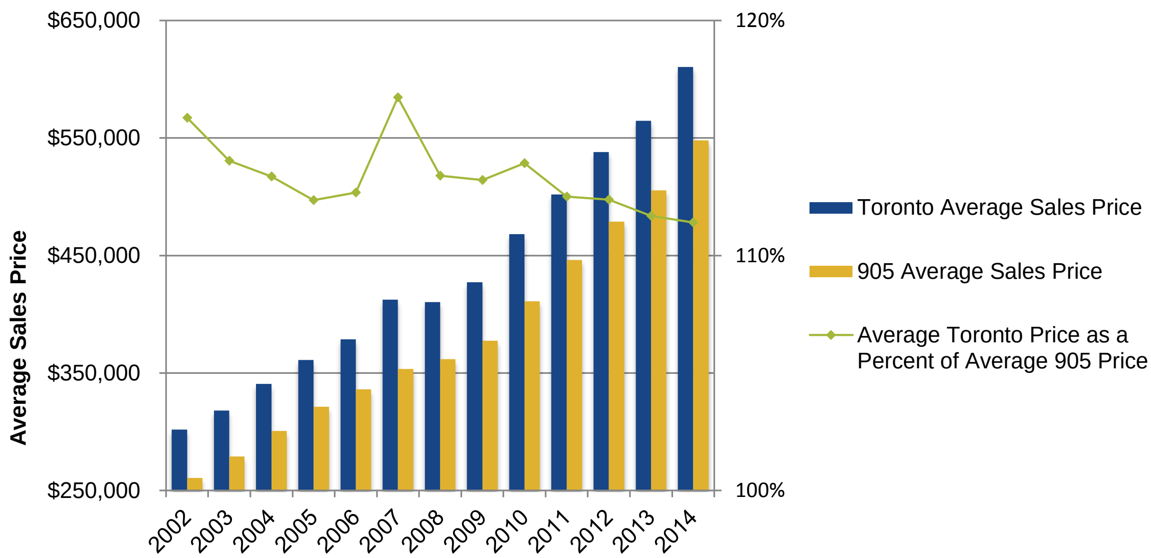
2.1.5 Annual Average MLS Residential Sales Price Data – TREB

Everything else may not be equal, though. For instance, if the attractiveness of living in Toronto had been increasing over time, and the supply of single-family homes in the city were inflexible, which it is, then average prices in the city may increase at a greater rate than prices in the 905 areas. Under this hypothesis, the LTT may have stopped this previously underling upward trend in relative average Toronto prices.

TREB source data of annual MLS sale prices for all types of residential properties, including condominiums, aid in ascertaining whether the relative trend in average sale prices in the city of Toronto diverged after February 2008 from the previous trend (see Figure 2).

The data show us that, while there appears to have been an impact of the LTT on relative average prices in 2007 and 2008, there is no sign of a pattern of increases in average prices in the city in the years immediately before the tax was implemented in early 2008. This does not support the hypothesis mentioned above.

Figure 2:
MLS Residential Average Sales Price, City of Toronto and 905 Areas



Source: Market Watch, Toronto Real Estate Board, 2002 – 2014.

2.1.6 Summary – Who Actually Pays the Toronto LTT?

The literature suggests that sellers in the city of Toronto bear much, if not all, of the LTT with buyers bearing a greater share of the burden in more central and prime locations. The rationale for this is that fringe buyers have a choice of buying in adjacent 905 areas so that sellers in Toronto must make their homes available at prices net of the tax in order to compete.

In contrast, analysis of the average MLS sales price data suggests that the Toronto buyers have absorbed the tax in the form of higher closing costs as prices appear not to be affected by the tax, either in the city as a whole or in a band bordering the adjacent 905 municipalities.

The author of this report sides with the findings of the average MLS sales data analysis and accepts the conclusion that buyers bear most, if not all, of the LTT burden.

2.2 Has the LTT Reduced the Number of MLS Residential Sales?

This section summarizes what the literature tells us about the impact of the Toronto LTT on the volume of MLS sales transactions and provides insight from the analysis of MLS average sales transactions data.

2.2.1 David Nowlan (2007)

As noted above, Nowlan's study was conducted prior to Toronto City Council's decision to implement the LTT. He concluded that the tax's impact would be small – less than a 1 percent decline in transactions – and would be focussed in parts of the city having competitive locations in 905. His reasoning for such a small impact was twofold: that the proposed percentage rate of Toronto's LTT was small and buyers and sellers would share the burden of the tax.[10]

2.2.2 C.D. Howe Institute (2008 and 2012) – Econometric Analysis

Both of the C.D. Howe Institute studies reached similar conclusions – finding that the LTT reduced the number of MLS single-family sales transactions in Toronto by 16%. According to the studies, the decline in the number of sales was about 3,500 in an average year in the city.[11] The two studies employed comparable methodologies for their econometric analyses in that they compared housing transactions in a geographic band centred on the boundary between the city of Toronto and its 905 neighbours.[12]

The 2008 study also compared transaction volumes in February-August 2007 and 2008 at 2.5 kilometer intervals up to 10 kilometers on both sides of the Toronto border. It found that the year-to-year percent declines by distance from the border, up to 10 kilometers, were greater in Toronto than in surrounding suburbs. As a result, it estimated that the 16 percent decline in transactions in the band also applied to the entire city of Toronto for a total of about 3,500 transactions for an average year.[13]

The C.D. Howe Institute study of 2012 did not extend its statistical analysis beyond the band on both sides of the border between Toronto and the 905 areas. It estimated that the 16 percent decline found in the band falling within the city also occurred in other parts of the city based on the findings of the C.D. Howe Institute study of 2008 and on logic.[14]

This 2012 study also found that the negative effect of the LTT on sales transactions of single-family homes was most significant on properties in areas within the border band with the lowest average sale prices

2.2.3 C.D. Howe Institute (2012) – MLS Sales Transactions for Single-Family Homes

This C.D. Howe Institute study tabulated MLS sales transactions for the City of Toronto and 905 areas before and after the imposition of Toronto's LTT – both for the study band on each side of the Toronto/905 border and for the entire city of Toronto and a portion of the GTA beyond the city's border. The results are summarized in Figure 3.

[10] Nowlan, "Economic Implications," 14-15.
[11] Dachis, Duranton, and Turner, Sand in the Gears, 8 and Dachis, Stuck in Place, 10.
[12] Dachis, Duranton, and Turner, Sand in the Gears, 7 and Dachis, Stuck in Place, 6.
[13] Dachis, Duranton, and Turner, Sand in the Gears, 8-9. This report states that the estimated reduction of 3,500 transactions in the City is understated since not all single-family homes sales occur through the MLS system and condominiums are excluded from the analysis.
[14] Dachis, Stuck in Place, 10.

Figure 3:
Sales of MLS Single-Family Homes,Toronto and 905 Areas, Before and After the Land Transfer Tax

	Entire GTA	
	Toronto	**905 Areas**
Pre-LTT (2005 - 2007)	$64,278	$46,163
Post-LTT (2008 – June 2012)	$79,949	$67,281
Percent Change	24.40%	45.70%

	Band adjacent to the Border of City of Toronto and 905 Areas	
	Toronto	**905 Areas**
Pre-LTT (2005 - 2007)	$13,444	$14,329
Post-LTT (2008 – June 2012)	$16,575	$18,827
Percent Change	23.30%	31.40%

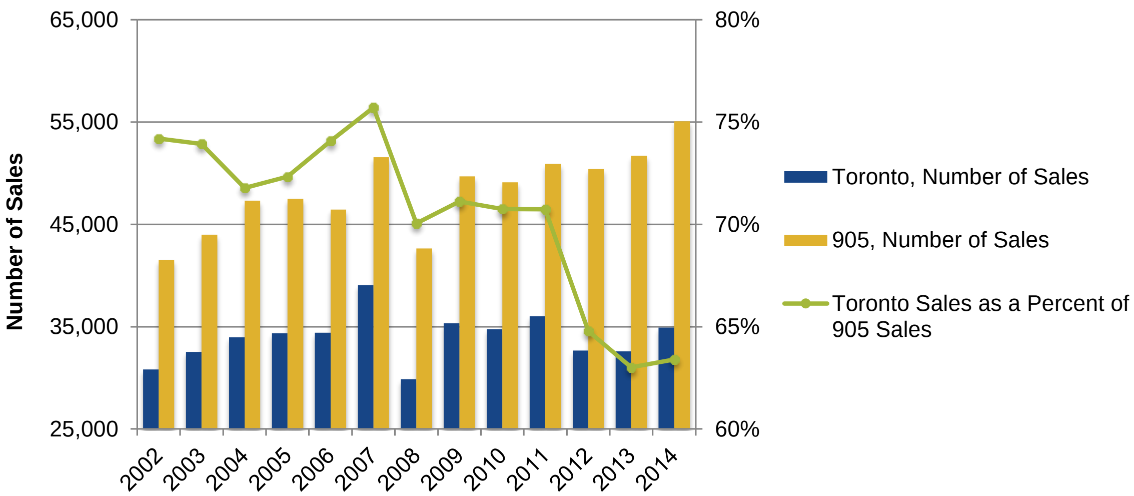
Source: Benjamin Dachis, Stuck in Place: The Effect of Land Transfer Taxes on Housing Transactions, C. D. How e Institute, October, 2012, Table A-1.

The data show that post-tax sales increased more rapidly in the 905 portion of the GTA than in Toronto, both city-wide and in that portion of Toronto within the band adjacent to the city/905 boundary. The differential in growth rates was more pronounced for the large 905 area that is part of the GTA than for the narrower band adjacent to the border with Toronto.

2.2.4 Annual MLS Residential Transactions Data – TREB

Figure 4 shows the distribution of MLS residential sales transactions, including condominiums, split between the city of Toronto and the 905 portion of the GTA by year from 2002 through to September 2014.

Figure 4:
MLS Residential Number of Sales, City of Toronto and 905 Areas



Source: Market Watch, Toronto Real Estate Board, 2002 – 2014.

The data suggest that, following a short-lived rise in Toronto's share of sales in 2007 (which was the year in which the possibility of LTT legislation was publicized in the media often and the legislation was passed by Toronto City Council), Toronto's share of sales then fell below the pre-2007 trend line of 42.3 percent of GTA sales to 41.2 percent in 2008, and an average of 41.4 percent in 2009-2011. This represented a decline of 0.9 percentage points. Toronto's share of MLS residential sales fell further during 2012-2014.

It is evident, then, that since the LTT came into effect, Toronto's share of MLS single-family home sales in the GTA has fallen off. What is not clear is what caused this shift.

2.2.5 Haider & Anwar (2014)

Dr. Haider of Ryerson University's Ted Rogers School, in a November 2014 presentation, addressed the question: Did the land transfer tax affect housing sales in the Greater Toronto Area?[15] His analytical framework included condominiums as well as single-family homes, incorporated the influence of the great recession on housing prices and sales, and examined the sales split between the city of Toronto and the 905 areas of the GTA. He uses an econometric approach.

The principal conclusion of the research is that any negative impact of Toronto's LTT on sales after the tax was implemented was not statistically significant. That is to say, the relative shift in MLS

[15] Murtaza Haider and Anwar Amar, "Did the Land Transfer Tax Affect Housing Sales in the Greater Toronto Area?", PowerPoint charts for presentation to the Institute on Municipal Finance and Governance, Munk Centre, University of Toronto, November 27, 2014.

residential sales from Toronto after the tax was implemented cannot be automatically attributed to the new LTT – other factors such as the great recession and the recovery from it could be contributors.

2.2.6 Summary – Impact of LTT on Residential Sales Transactions in the City of Toronto

The econometric analysis in the C.D. Howe Institute's 2012 study found that there was a decline in MLS sales of single-family homes after Toronto's LTT tax came into effect. This finding is supported by the information on MLS sales (which was compiled for the C.D. Howe Institute studies) and the additional MLS data which were tabulated for this report.

There is much less agreement on whether the 16 percent decline in Toronto sales in the study band should be extended to apply to the entire city or whether the shift away from Toronto to the 905 areas is due to the LTT or to other factors.

In my opinion, the city-wide decline of an average of 3,500 sales transactions per year estimated by the C.D. Howe Institute appears to be overstated.

3. ASSESSMENT OF TORONTO'S LTT AGAINST TAX EVALUATION CRITERIA

This chapter assesses Toronto's LTT against the tax evaluation criteria described in Section 1.2.

3.1 Revenue Generation

Since it was implemented in early 2008, the LTT has been a solid revenue generator for the City of Toronto. Total revenues have risen continually from about $170 million in 2010 to $432 million in 2014.[16]

All of the revenue from the LTT in 2014 was equivalent to 11.2% of the property tax revenue which the City raised for its own purpose. If the LTT were not in place, the City's property tax rate would need to be 11.2% higher to replace the foregone revenue – or spending by the city would need to be correspondingly lower.

Tax revenue from the LTT will be much more volatile than revenue from the property tax given that the volumes and average prices of MLS residential sales fluctuate much more than the assessed value of property which is reassessed every four years. Toronto's housing market has been robust for more than a decade, an atypical length of time. When the market inevitably turns down so will LTT revenues.

3.2 Transparency

The LTT and its amount are very visible to potential homebuyers, so the tax ranks high in terms of transparency. The tax is easily understood as to what is taxed and how the tax is calculated. Many realtor websites contain LTT calculators for both the City of Toronto's and the Province's taxes. The City's web site also provides details of the tax. The amount of LTT to be paid is itemized on the statement of adjustments at the time that a property transaction is being closed.

3.3 Administration

The City of Toronto has an agreement with Teranet, a company that operates the Electronic Land Registry System throughout Ontario, to collect LTT revenues on its behalf. In this regard, the City is following the practice of the Province. On the surface, contracting for administrative services with a company which already provides this service for the province should be a cost-effective approach to administration of the tax. Enforcing payment of the LTT at the time of purchase is readily achieved since all sales transactions must be registered through Teranet.

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[16] City of Toronto, Financial Condition and Performance, City of Toronto, 2014, 25 and City of Toronto, 2015 Staff Recommended Tax & Rate Supported Operating Budget, Budget Committee Presentation, January 20, 2015, 29.

The actual cost of administering the City's LTT is not public information. City staff says the City's agreement with Teranet is confidential. It is suspected that the administration costs are relatively low relative to the revenue which is generated, so the tax would earn a relatively good rating from an administration perspective.

It should be noted that the administration costs, whatever they are, will be higher than achieving the same amount of revenue through a higher property tax rate. The City is already incurring collection and enforcement costs for the property tax, and it is paying the Ontario Municipal Assessment Corporation annually for the maintenance and updating of the property tax assessment base.

3.4 Equity/Fairness

The tax rates a low score in terms of equity, both in terms of benefits received and ability to pay.

3.4.1 David Nowlan (2007)

Nowlan looked at offsetting benefits of the Toronto LTT in terms of either improved services or reduced property taxes. He stated that the aggregate benefits will be at least as large as the burden of the LTT and was aware that the distribution of benefits is likely to be different from the distribution of the burdens.[17]

Nowlan provided an example of what he calls benefit offset by assuming that the LTT revenue would be used entirely to offset higher property taxes. Taxes would be 9.2 percent higher without the LTT. He calculates that if the buyer bears the burden of the LTT and benefits from lower property taxes, then he/she recovers the LTT paid within 10 years as long as the buyer does not move.[18]

3.4.2 Amborski (2012)

David Amborski, in a report prepared for the Toronto Real Estate Board, critiqued Nowlan's so-called benefit offset tenet. Amborski made the following points:

- The benefits of the services funded from the LTT raised will accrue to all property taxpayers, not just those bearing the burden of the LTT;
- People buying and then moving before recouping all the costs of the LTT though lower property taxes still face a tax burden, especially if they buy another home in Toronto; and

[17] Nowlan, "Economic Implications," 10.
[18] Nowlan, "Economic Implications," 12.

- The period of time it will take to compensate a purchaser for the land tax burden will depend on the value of the property purchased (above or below $400,000) which affects the rate of the LTT, the property tax assessment and property tax rate.[19]

3.4.3 Kitchen and Lindsey (2013)

Harry Kitchen and Robin Lindsey, in a study commissioned by the Residential and Civic Construction Alliance of Ontario, concluded that a LTT like that in the city of Toronto is not a good tax from an equity perspective. They stated that "It {the LTT] bears no relationship to the benefits received for local services," and "It [the LTT] imposes a burden on those who buy property while placing no burden on those who remain in their existing property."[20]

3.5 Economic Efficiency

There undoubtedly are negative economic efficiency impacts linked to the City's LTT on single-family homes but these seem relatively small.

3.5.1 Nowlan (2007)

Nowlan concludes that the "only broad, City-wide economic impact of any significance could be on the process of property development and redevelopment."[21] He bases this on the tax burdens on sellers of land or redevelopment sites will face a reduction in land value which will delay some developments by keeping the affected properties in their original use for longer than anticipated.[22]

3.5.2 C.D. Howe Institute (2008)

According to this C.D. Howe Institute report, the reduction in residential property transactions caused by the Toronto LTT (at least 3,500 in its first year) means that this number of households stayed in homes from which they would have previously moved. These households incurred an economic welfare loss because they stayed in houses that were too small, too big, or too far from their place of work or school.[23]

[19] David Amborski, "Considerations in Replacing the City of Toronto Land Transfer Tax," a draft report prepared for TREB, June 20, 2012, pp. 8-9.
[20] Harry Kitchen and Robin Lindsay, Financing Roads and Public Transit in the Greater Toronto and Hamilton Area (Vaughan, ON: Residential and Civil Construction Alliance of Ontario, 2013), 25.
[21] Nowlan, "Economic Implications," 20.
[22] Nowlan, "Economic Implications," 18.
[23] Dachis, Duranton, and Turner, Sand in the Gears, 15.

3.5.3 C.D. Howe Institute (2012)

This C.D. Howe Institute report found that in addition to reducing the incentive for Toronto households to move, the LTT has resulted in more Toronto households choosing to renovate their current homes rather than relocating.[24]

3.5.4 Kitchen and Lindsey (2013)

This study also noted an LTT reduces house sales and prices and impedes household mobility. It added another negative effect to the tax: "The tax also provides an incentive for those who remain in their houses to demand municipal services knowing that they will be disproportionately paid for by those who buy property."[25]

3.6 Economic Impact

An April 2014 study by Altus Group Economic Consulting for the Ontario Real Estate Association examined the economic implications of the C.D. Howe Institute's 16 percent reduction in MLS single-family residential sales transactions in the City as a whole. The study estimated that between 2008 and 2013, a span of 6 years, 38,278 potential residential resale transactions were lost in the City of Toronto due to the LTT.[26] This was equivalent to an average of 6,380 transactions per year. The estimate includes lost condominium transactions which were excluded from the C.D. Howe estimates.

The study concluded: "Overall, Toronto's MLTT [LTT] has cost billions of dollars of economic activity and thousands of jobs in the city since its inception. The revenue generated by the MLTT is far less than the economic loss caused by the new tax."[27]

For the entire 2008-2013 period the negative economic implications for the City of Toronto which this report estimated are sizable:

- Loss of $2.3 billion in economic activity;
- Reduction of $1.2 billion in GDP;
- Loss of 14,934 jobs; and
- Loss of $772 million in wages and salaries

It appears, however that the Altus study overstated the negative economic implications of the LTT particularly for the GTA as a whole but also for the city of Toronto alone.

[24] Dachis, Stuck in Place, 1.
[25] Kitchen and Lindsey, Financing Roads and Public Transit, 25-26.
[26] Altus Group Economic Consulting, Economic Implications of the Municipal Land Transfer Tax in Toronto, prepared for the Ontario Real Estate Association (Toronto, Altus Group Economic Consulting, 2014), 6.
[27] Altus Group Economic Consulting, Economic Implications, i.

The Altus Group's April 2014 study examined the economic implications of the C.D. Howe Institute's finding of 16% reduction in sales transactions for the city as a whole (an average of 3,500 sales annually) which has been adjusted upward to include condominium sales (to an average of 6,380 transactions per year). This volume of transactions appears to be overstated since the C. D. Howe Institute's estimates appear exaggerated.

The study also erred in assuming that all of the economic loss from the lower sales transactions in the city impacted only city businesses and that none of the economic gains from increased transactions on the 905 side of the Toronto boundary accrued to Toronto businesses. The reality is that the economic implications of the shift in home buying which the C.D. Howe Institute studies estimated is roughly the same after the tax was implemented as before. Buyers in the 905 areas adjacent to the city buy goods and services from Toronto businesses and, conversely, homebuyers on the Toronto side buy goods and services from the 905 area. The LTT is unlikely to materially affect this underlying pattern of spending by the homeowners.

3.7 Impact on Urban Form

The implications of Toronto's LTT for urban form within the GTA do not appear to be significant.

3.7.1 Amborski (2013)

Amborski points out that the impact of Toronto's LTT may actually work at cross-purposes with the objectives of the Growth Plan for the Greater Golden Horseshoe if it has the impacts discussed by Nowlan on real estate development and redevelopment. While the Growth Plan for the Greater Golden Horseshoe encourages intensification in the city of Toronto, the LTT may delay intensification that would have taken place sooner without it.[28]

Amborski also observes that the absence of LTTs in the 905 municipalities may shift the location and purchase decision of some homebuyers from Toronto to adjacent 905 areas.[29]

[28] Amborski, "Considerations," 9.
[29] Amborski, "Considerations," 8.

4. WHY THE RESIDENTIAL PROPERTY TAX IS A GOOD TAX FOR MUNICIPALITIES

The recommendation of this report is that the City of Toronto consider phasing out the LTT over five years with foregone revenues being replaced with higher property taxes. This section explains why the property tax is considered to be superior to the LTT. The discussion in this section benefited considerably from the work of Professor David Amborski in his paper prepared for the Toronto Real Estate Board in 2012.[30]

4.1 A Good Local Tax

Amborski observed that economists tend to support the property tax as a "good local tax" despite the fact that its application can generally be improved.[31]

4.2 Revenue Generation

The property tax is the primary source of funding for Ontario municipalities and produces a great amount of revenue. Its base – the assessed value of real property – is very responsive to real economic growth and inflation as long as assessed values reflect current market values of properties.

A weakness of the property tax is that municipal councils must vote on the tax rate each year, even to account for inflation. Revenues from other taxes like income taxes, sales taxes and the LTT automatically increase with inflation.

The city of Toronto has experienced a decline in the effective property tax rate (taxes as a percent of market value) over the past decade as its Council has confused a tax rate increase to compensate for inflationary rises in municipal expenses with an increase incurred to fund new or better services. In this regard, it is encouraging that the City of Toronto's new mayor realizes that property tax rates must be expected to rise by the inflation rate – not the zero rate of increase which some previous mayors advocated.

4.3 Transparency

The property tax is highly transparent. According to Amborski, visibility makes councillors more responsive and accountable.

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30 Amborski, "Considerations," 13, 15-18.

31 Amborski also notes that a recent book on property tax reform in Ontario reached this conclusion. See Richard M. Bird, Enid Slack, and Almos Tassonyi, "Property Taxes in the Greater Toronto Area: Revenue Hills and Tax Competition," Chapter 8 in A Tale of Two Taxes: Property Tax Reform in Ontario (Cambridge, MA: Lincoln Institute of Land Policy, 2012).

4.4 Administration

The administrative support system for the property tax is well established and is cost-effective. Replacing the LTT with property taxes would result in a net cost saving since the property tax administrative costs are already being incurred.

4.5 Equity/Fairness

The property tax scores much higher than the LTT does in terms of fairness. Many municipal services tend to benefit all property owners and tenants. Therefore, there is a much stronger relationship between taxes paid and benefits received under the property tax than with the LTT which is payable only at the time of property purchase.

There is also a closer correlation between ability to pay taxes and property taxes than the LTT.

4.6 Economic Efficiency

The residential property tax in Toronto is at odds with economic efficiency. This is because it encourages households to locate in the city rather than in adjacent 905 areas, and it encourages businesses to locate in adjacent 905 areas rather than in the city. This is the result of an effective residential property tax which is lower, and a tax rate on commercial and industrial properties which is higher, in the city of Toronto than those in the 905 areas.

Replacing the LTT with higher residential property taxes would improve economic efficiency within the GTA for households.

4.7 Economic Impact

A rise in residential property taxes combined with the elimination of the LTT would act to increase economic activity at the margin but not be sizable.

4.8 Urban Form Impact

An increase in both residential property taxes and the LTT in the city of Toronto alone tend to encourage more households to live in 905 areas adjacent to the city rather than the outer parts of the city. In both cases the impacts are small.

5. CONCLUSION: LTT VS. PROPERTY TAX

The bottom line is that the residential property tax is a good tax while the LTT is merely a tolerable tax. The economic welfare of the city of Toronto and its residents will be enhanced if the LTT is dropped and the residential property tax increased to provide the same revenue.