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City land transfer tax a bad idea

Proposal could cost Toronto much more than it brings in, expert warns

The City of Toronto's proposal to impose a municipal land transfer tax on the purchase of all real estate in the city has the potential to cause a major disruption to the city's economy.

The effects on the building and housing industries could well be serious enough to create losses far exceeding the money that would be added to the city's coffers.

The idea of a municipal land transfer tax was broached in a discussion paper issued by the city's corporate finance division last week. The paper suggests a rate ranging from 0.1 per cent to a flat 1.5 per cent.

When the news broke, I called Barry Lebow, one of the foremost experts in the value of Toronto real estate. Lebow is a professional realtor, appraiser, and educator who has testified as an expert witness on real estate market values in more than 500 court cases.

He was blunt when I asked him what he thought of the proposal to have a municipal land transfer tax. "It's the stupidest thing I've ever heard," he said.

He explained that it could easily cause an urban exodus to the 905 regions, massive job losses in the construction industry and a ripple effect that could lead to chaos in the real estate sector in this city.

Provincial land transfer tax is payable by the purchaser of real estate on registration of the transfer or deed of land. The rates are 0.5 per cent on a purchase price of up to $55,000, plus 1 per cent from $55,000 to $250,000, plus a further 1.5 per cent on the value exceeding $250,000 up to $400,000.

On the amount exceeding $400,000, the tax is a full 2 per cent where the property consists of one or two single-family residences.

Using this formula, a $300,000 house is subject to a one-time transfer tax of $2,975, while a $600,000 house is taxed at $8,475. A $1 million house is zapped for $16,475, but a $1 million commercial property is only taxed at $13,425.

The average land transfer bill for a resale home in Toronto last year was $3,890. In total, the land transfer tax raises about $1 billion for the provincial treasury every year.

Under the new City of Toronto Act, 2006, which came into effect this past Jan. 1, the city acquired sweeping new powers of taxation, including the right to impose a tax on the transfer of any kind of land residential, multi-unit residential, commercial or industrial.

Existing exemptions from the provincial tax would not necessarily apply to the proposed municipal land transfer tax. First-time buyers of newly constructed homes, who are currently exempt from the first $2,000 in provincial transfer tax, could get hit with a similar municipal tax. This would effectively cancel a long-standing provincial incentive that has allowed tens of thousands of homebuyers to acquire their first homes without the added burden of $2,000 in land transfer tax.

The city's discussion paper is based on a study of potential new tax measures conducted for the city by Hemson Consulting Ltd. The study suggests that a city land transfer tax pegged at 0.5 per cent has the potential to raise $102.7 million assuming 2006 transaction levels and sales prices.

The Hemson study goes into considerable detail on the cost of collecting the tax, the ability to avoid the tax (for example, by buying elsewhere or under-reporting the sale price), and the start-up and administration costs.

Without any supporting evidence, the study suggests that there could be some pressure on real estate agents to absorb at least part of the new tax in their fees.

In the entire paper, only a couple of paragraphs are devoted to the anticipated reaction to the tax and I couldn't find anything at all on the rebound effect the land transfer tax could have on the city's economy.

The paper na vely suggests that "the reaction to this tax is likely to come principally from the real estate industry and especially the (Toronto) Real Estate Board. The major criticism will probably be that the tax will reduce the affordability of housing."

I have some news for Hemson Consulting. The housing industry in this city is a delicate creature. It can be significantly affected by perceptions. If the public acquires the perception that city real estate values are softening as a result of the new tax, then the perception can easily become the reality.

Lebow told me he is concerned a municipal land transfer tax could create a stampede to the 905 regions.

"People will vote with their feet," he told me. "Why would someone buy on the south side of Steeles Ave. when the same house on the north side would be thousands of dollars cheaper?"

The residential construction industry builds tens of thousands of new homes and condominiums in Toronto every year. It's the engine that drives a good chunk of the city's prosperity. If a city land transfer tax becomes a reality, thousands of jobs in the construction industry could be affected. Suddenly the labour unions would add their voices to the real estate industry screaming about the effects of the new tax.

As well, I hate to think what would happen to affordable rental housing if apartment building purchasers got hit with an upfront six-figure tax bill.

On April 9, 1974, the Ontario government imposed a land speculation tax of 50 per cent on real estate profits. Even though it was later ruled unconstitutional and reduced to 20 per cent, the market collapsed overnight. By the next morning, real estate values had dropped 30 and 40 per cent.

Having lived through the "spec tax" nightmare, I can confidently predict that a city land transfer tax has the same potential to cause chaos in the housing industry in Toronto.

Why would the city politicians want to risk creating such havoc?

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