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## *Land Transfer Tax Has Punishing Effect on House Sales, Prices: C.D. Howe Institute*

Toronto, Dec. 9 – Toronto's Land Transfer Tax (LTT), implemented nearly a year ago, has had punishing effects on the Toronto housing market, reducing transactions and lowering average prices, according to a study released today by the C.D. Howe Institute. In *Sand in the Gears: Evaluating the Effects of Toronto's Land Transfer Tax*, authors Benjamin Dachis, Gilles Duranton and Matthew A. Turner find that the LTT caused a 16 percent decline in the number of single-family homes sold after January 2008 and a 1.5 percent reduction in house values.

Toronto's LTT, which became effective on Feb. 1, 2008, requires that buyers pay a tax on the purchase of a house in Toronto. The authors assess the effects of the LTT on the volume of sales and on prices using data on the sale of single-family homes in the Greater Toronto Area between January 2006 and August 2008. They calculate that the LTT will cause a reduction in household mobility – at least 3,500 families annually in the municipality of Toronto will stay in houses from which they would have otherwise moved – and an average reduction in selling price of about \$6,400 per house.

The reduction in household mobility means that families will be more likely to remain in houses that are too big or too small, or are too far from their workplace or school. The dollar value of this lost mobility is about \$1 for every \$13 of revenue that the LTT generates for Toronto's coffers, or about \$12 million per year. They also find that the LTT has led to significant new administrative expenses.

While an LTT and an ordinary property tax have similar effects on property prices, their effects differ otherwise. Unlike an LTT, an ordinary property tax does not discourage mobility and does not involve the extra administrative expenses associated with the LTT. More concretely, say the authors, if Toronto raised property tax rates by about 8 percent, then property owners would pay about the same amount of tax as under the LTT. However, because an ordinary property tax does not discourage mobility, they would pay these taxes on houses that

suiting them better and would be relieved of the extra administrative expenses of the LTT. It follows that the welfare of Toronto residents could be improved if the city reduced its reliance on the LTT in favor of the preexisting property tax.

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*Sand in the Gears: Evaluating the Effects of Toronto's Land Transfer Tax*, C.D. Howe Institute Commentary No. 277, by Gilles Duranton, Matthew A. Turner and Benjamin Dachis (December 2008). 28 pp; \$12.00 (prepaid, plus postage & handling and GST – please contact the Institute for details). ISBN 0-88806-774-7.

Copies are available from: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or directly from the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available from the Institute's website at [www.cdhowe.org](http://www.cdhowe.org).