

Intelligence MEMOS



From: City Councils across Canada
To: An Unhappy Tenth Birthday to Toronto's Land Transfer Tax
Date: October 23, 2017
Re: **AN UNHAPPY TENTH BIRTHDAY TO TORONTO'S LAND TRANSFER TAX**

This week is an anniversary of sorts for the City of Toronto. It marks 10 years since it applied a Land Transfer Tax (LTT) on most real estate transactions.

On October 22, 2007, Toronto City Council voted to introduce a tax of up to 2 percent, on top of the then up to 2 percent provincial transfer tax, on the value of homes above \$400,000 with an exemption for first-time buyers.

A lot has happened since then. For example, the iPhone wouldn't be released in Canada until mid-2008. And the world has also learned a lot about the harmful effects of land transfer taxes since then.

The [C.D. Howe Institute's look at Toronto's LTT in 2008](#), and [subsequent related work](#), was the first in the world to estimate the economic harm of the tax. Studies using various methods around the world from places as diverse as [France](#), [New York City](#), [Washington D.C.](#), [Australia](#), and many [studies](#) in the [United Kingdom](#) all show the same result: LTTs substantially reduce the number of housing transactions.

Looking at the [longer-term impact](#) of the Toronto LTT shows that it resulted in, on average, a 16 percent decrease in sales volume, even in the midst of the epic real estate boom of the last five years. The effect of the LTT on transactions varies by house price, with the largest effect on homes in areas with resale prices below the median market sale price. Because the LTT reduces the incentive to move, the tax has resulted in more Toronto residents choosing renovations to their current homes as opposed to relocating.

The world has also learned a lot about the broader economic costs of these levies. The Institute's [first study](#) estimated that the dollar value of lost mobility is about 13 percent of every \$1 of revenue that the LTT generates for Toronto's coffers. Another study of the similar [United Kingdom tax](#) found that the economic cost of a similar tax there was 29 percent for every dollar of government revenue and that the economic costs accelerate as the tax rate increases.

That UK study of the tax system at the time looked at what kind of household moves transfer taxes stymie by tracking households over time, before and after they move. The tax tends to reduce the moves within a city rather than longer-distance moves or job changes. That means the economic cost to homeowners of transfer taxes is when they have to suffer through growing traffic congestion year-after-year to get to their same job because they can't afford to move closer or that families don't have access to neighbourhoods with the kinds of schools they want their kids to attend or the right-sized house for a growing family.

While the studies keep showing the economic harm, Canadian governments keep on increasing the tax. The City of Toronto and Ontario each introduced new top rates of 2.5 on homes over \$2 million. British Columbia and Ontario both introduced new [transfer taxes on foreign buyers](#). And cities across the country are [constantly](#) asking for provinces to grant them the power to introduce one. It's time that governments learn from the studies that have been done on the harm of LTTs in the last 10 years and reduce or remove them.

Benjamin Dachis is Associate Director of Research at the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.