Opposition To Land Transfer Tax

Issue(s): *Land transfer tax, which is paid by a buyer when property is sold, would negatively impact the local economy and hinder housing affordability as it is unfair, adds additional cost to home purchases and would reduce economic spin off from property transactions.*

EXECUTIVE SUMMARY

Numerous provinces and municipalities across Canada levy Land Transfer Taxes (LTTs) as a source of additional revenue. LTTs can be expensive, and make up a significant portion of the expenses associated with ordinary housing transactions, making moving more costly. These costs impose a trickle down effect, which negatively impacts the local economy by impeding housing and subsequently labour mobility, create a volatile government revenue source, distorting commercial real estate markets and creating higher overall construction costs. For this reason the Medicine Hat & District Chamber of Commerce opposes the creation of any new tax in the form of land transfer tax and would encourage governments to look at more stable resources, cost cutting measures and value-added options for economic stability, long term sustainability and growth.

BACKGROUND

A Land Transfer Tax has already been implemented in British Columbia, Manitoba, Ontario, Quebec and in several Nova Scotia municipalities and is currently being discussed in several Alberta municipalities.

Land transfer tax was originally discussed in Alberta in the 2007 *Report of the Minister's Council on Municipal Sustainability*, authored by Mandel, Bronconnier, Hawksworth and Johnson on behalf of Edmonton, Calgary, AUMA and the AAMDC and delivered to the Honourable Ray Danyluk, Minister of Municipal Affairs. 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. While the land transfer tax recommendation was put aside, the topic has since been raised by a number of Alberta municipalities, including Lethbridge and Calgary.

A Land Transfer Tax (LTT) is, by broad definition, a charge paid to a municipality or provincial government upon the transfer of real estate or immovable object. Where an LTT is levied, the buyer is required to pay an amount that is usually proportional to the value of the purchase. An LTT is likely more politically appealing to politicians than is a broad-based property tax because few residents are directly subject to an LTT in a given year, compared with the population of homeowners generally. However, because it is a transaction tax, an LTT is economically distorting in a number of ways. In particular, because the transfer tax raises the costs of moving or relocating, it is likely to reduce a homeowner’s propensity to relocate. Studies show that, within the first eight months of its existence, LTT reduced single-family-dwelling transactions by 16 percent (Toronto Study), with a disproportionate effect on transactions involving homes priced below the average house sale price, and reduced the average sale price by 1.5 percent (Dachis, Duranton, and Turner 2008, 2012).

Existing economics literature suggests that reduced mobility due to LTT’s might increase unemployment in places with an LTT, starve firms elsewhere of employees, deter workers from switching to more productive jobs, and result in homeowners keeping homes they no longer desire (Hilber and Lyytikäinen 2012). Further, an LTT also might have a number of other economic downsides. First, because it is a narrow transactions tax, an LTT distorts residential and commercial real estate markets. Second, like retail sales taxes, an LTT might cascade through the construction and sale of real estate projects, resulting in higher costs for homebuyers and fewer transactions. Third, the revenues from an LTT are highly volatile. Finally, an LTT is a weak tool with which to curb volatile housing markets, and policymakers should rely instead on broader housing market tools to curb house price fluctuations.

Home Buyer Impact:
The following examples show potential costs, over and above the price of the home, a buyer would face if a Land Transfer Tax was implemented in an Alberta Municipality. *NOTE: an average MLS® sale price in Calgary of $362,557 was used in these calculations which show the additional cost to the buyer if a land transfer tax was implemented at 0.5%, 1.0% and 2.0%.*
0.5% land transfer tax = $1812.79
1.0% land transfer tax = $3625.57
2.0% land transfer tax = $7251.14

ANALYSIS

The existing empirical literature suggests a reduction in household mobility as a consequence of higher transaction costs has two main effects on the economy. First, people might be deterred from taking up jobs far from their place of residence or from switching to more productive jobs to which they cannot reasonably commute from their existing home. Second, higher transaction costs might cause some households to tolerate living in ill-suited homes for longer than they would have otherwise desired (Hilber and Lyytikäinen 2012). Other potential effects include government revenue volatility, commercial real estate market distortions, and higher construction costs.

Many individuals and families move in order to be closer to a job opportunity. Canada has a high overall rate of mobility with 14 percent of Canadians reporting in the 2006 Census that they had moved in the previous year. In Alberta, the province with the highest degree of labour mobility, 19 percent of the population moved in the year prior to the Census.

The migration of workers from areas of few to areas of greater employment opportunities is fundamental to the process of labour market adjustment to structural economic change, and reduces the economic and social harm of unemployment (see Blanchard and Katz 1992; Beine, Coulombe, and Vermeulen 2012). At the same time, high transaction and moving costs are associated with lower mobility of workers (Rupert and Wasmer 2009); they also reduce the ability of homeowners to move to areas where local amenities better suit household preferences, which, by constraining individual choices, reduces social welfare.

When a piece of land or real estate changes hands multiple times, the LTT can end up being applied more than once on the same project – or on variations of it – during its construction process and final sale. For example, a developer who purchases vacant land from a landowner would pay the LTT on the initial purchase. If that developer then chose to resell the vacant property to another developer who then builds homes on it, the LTT would apply at three different stages in the construction and sale of a home and would either be embedded in the final purchase price for the buyer or result in a lower sale price for the landowner.

The Medicine Hat & District Chamber of Commerce opposes the implementation of a Land Transfer Tax in Alberta municipalities because the tax is unfair, hinders housing affordability and negatively impacts the economy through the following:

- Unfairness: forces homebuyers to pay for services that benefit the community-at-large.
- Affordability: adds additional cost to a home purchase, expenses that must be paid in full at closing.
- Negative economic impact: fewer property transactions: reduced economic spin-off from property sales, including reduced spending on renovations, appliances, furniture, etc.

RECOMMENDATIONS

The Medicine Hat & District Chamber of Commerce recommends that elected officials not implement any means of Land Transfer Taxes and pursue more equitable means of achieving municipal sustainability and look to more reliable revenue sources and cost cutting measures that are less harmful to the local economy and the functioning of labour markets.

Resources:

C.D. Howe Institute and economics professors from the University of Toronto:
http://www.cdhowe.org/?s=land+transfer+tax
Stuck in Place: The Effect of Land Transfer Taxes on Housing Transactions
http://www.cdhowe.org/pdf/Commentary_364.pdf
http://www.ratehub.ca/land-transfer-tax

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