



Hot Issue!

Government Relations Issues Update

Land Transfer Tax Rebate

TREB Key Message

The Land Transfer Tax rebate should be expanded to include resale housing, which would help discourage urban sprawl. As currently structured, the rebate encourages urban sprawl by creating an incentive for first time buyers to purchase newly built homes, which are usually located on greenfield properties. In contrast, resale homes are usually located within already urbanized and serviced areas.

Background

A real estate transfer tax is assessed on real property when ownership of the property is transferred from one party to another. The tax is a percentage of the value of the property based on a graduated scale (See Table 1).

The land transfer tax was amended in the 1996 Ontario budget to allow first time purchasers of newly constructed homes a refund of land transfer tax, up to a maximum of \$1,725. Subsequently, this rebate program was made permanent, effective April 1, 2000 and the maximum rebate was increased to \$2,000.

The provincial government has recently acknowledged that the Land Transfer Tax rebate, as currently structured, encourages urban sprawl by creating an incentive for first time buyers to purchase newly built homes, which are usually located on greenfield properties. The Greater Golden Horseshoe Growth Plan discussion paper, Places to Grow, released in July, 2004 by the Hon. David Caplan, Minister of Public Infrastructure Renewal, committed to reviewing “the land transfer tax rebate program to promote resale housing”. Unfortunately, the draft Growth Plan released in February 2005 did not mention this proposal.

A study prepared for the Ontario Real Estate Association in 1997 indicated that resale housing transactions generate significant economic spin-offs. Associated expenditures such as general household purchases, renovations, and furniture/appliances generate over \$17,000 for every resale housing transaction. Given increases in renovation trends and inflation, it is likely that this figure is considerably higher in 2004. Furthermore, this figure only relates to the costs of moving from one home to another. It does not include any expenditure (e.g. renovations) by the sellers to prepare their properties for sale.

Table 1: Land Transfer Tax Calculation

| Residential Properties | Commercial Properties |
|---|---|
| .5% on amounts up to and including \$55,000 | .5% on amounts up to and including \$55,000; |
| + 1.0% on the amount exceeding \$55,000 up to and including \$250,000 | + 1.0% on the amount exceeding \$55,000 up to and including \$250,000 |
| + 1.5% on amounts above \$250,000 up to \$400,000 | + 1.5% on amounts above \$250,000 |
| + 2.0% of the amount in excess of \$400,000 | |

