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## **2021 OPERATING BUDGET BRIEFING NOTE**

### **Potential Revenue from a Luxury Home Tax**

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**Issue/Background:**

- At its meeting of January 22, 2021, Budget Committee requested that the Chief Financial Officer and Treasurer provide a budget briefing note on potential revenues from a Luxury Home Tax adjustment, with higher rates applied to Municipal Land Transfer Tax (MLTT) for homes with Value of Consideration (VOC) higher than \$2 Million or \$3 Million in the following scenarios:
  - I. Additional revenues the City would have received annually in the past 5 years
  - II. Projected revenues for 2021

**Key Points:**

- MLTT is collected on property sales within the City.
- The current rates for residential sales are based upon this calculation:

<b>Value of consideration</b>	<b>MLTT Rate</b>
Up to and including \$55,000.00	0.5%
\$55,000.01 to \$250,000.00	1.0%
\$250,000.01 to \$400,000.00	1.5%
\$400,000.01 to \$2,000,000.00	2.0%
Over \$2,000,000.00	2.5%

- As an example, adjusting the rates 1.0% higher (from 2.5% to 3.5%) on property sales with VOC higher than \$2 million or \$3 million would yield the following results in incremental annual revenue:

Scenario	Incremental Annual Revenue		
	As applied to 2020 Sales level	As applied to past 5 year annual average	As applied to 2021 sales projection*
3.5% rate \$2m +	\$18.62m	\$26.77m	\$18.68m
3.5% rate \$3m +	\$6.34m	\$13.26m	\$6.35m

\*5 year Compounded Annual Growth Rate (CAGR) applied to 2020 sales level

- Sales volumes and VOC subject to market variability
- Elasticity and avoidance impacts are expected to be small (\$0.1m to \$0.5m)

### Questions & Answers:

- Implementing new upper tiers and rates on values, from the above analysis, could achieve potential additional annual revenue between \$6.34m – \$18.62m (based on 2020 sales levels) or \$13.26m to \$26.77m (based on past 5 year average sales level), pending council decision (or direction).
- Requires two to three months for Teranet and Revenue Services Division (RSD) to update the MLTT system.
- No statutory notice requirement under the City of Toronto Act.
- Implementing new upper tiers and rates on values could have negative, yet transitional, impacts on the housing market, including the following:
  - A new MLTT tier(s) would incentivize buyers and sellers to transact below the cut off.
  - Increased transaction costs from graduated rates will slightly reduce the liquidity of real estate, particularly in the luxury homes market which is showing some signs of a decline.
  - Could discourage current home owners from up-sizing to lower-end luxury homes; which could potentially tighten housing supply for mid-value homes.
- If rate adjustments are made, policy on the appropriate future indexing of what constitutes VOC levels will be required.

### Other considerations:

- By increasing MLTT rates, the City's tax structure will be diverging from provincial LTT rate structure, and will no longer be harmonized.
- Escalating prices may require a review of the appropriateness of the luxury thresholds over time.

**Potential Budget Implications:**

- 2021 Budget adjustments arising from any direction to adjust MLTT rates would need to consider current sales and volume projections and time required for Teranet and Revenue Services Division (RSD) to update the MLTT system.
- MLTT revenue varies by year and is subject to market conditions, as such staff recommend that any additional revenue generated from potential MLTT rate changes be directed to the Capital Finance Reserve for use in the City's Capital Program as opposed to offsetting generally fixed, ongoing operating expenses.

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**Date:** January, 28 2021