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2020 OPERATING BUDGET BRIEFING NOTE

MLTT Graduated Rates

Issue:

This briefing note responds to a January 17, 2020 Budget Committee request for information on potential changes to Municipal Land Transfer Tax (MLTT) tiers, specifically for transactions with Value of Consideration (VOC) above \$3M and \$4M. Staff were also requested to comment on issues/benefits with directing any additional MLTT revenue to operating budget expenses. (See Committee reference below)

This note summarizes the revenue and policy impacts of a graduated MLTT rate structure **(for residential transactions only)**, provides sales volumes based on a review of the 10-year historical MLTT data and potential revenue estimates¹.

Committee Reference:

Report [BU14.2](#) considered by Budget Committee on January 17, 2020 titled Capital and Operating Budgets
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.BU14.2>

Comments:

- The following table shows the number of MLTT transactions for properties greater than \$3M and \$4M, every year from 2010-2019.

Table 1: Total Transactions by VOC (Res only)

Year	3M - 4M	4M - 5M	5M+	Total
2010	89	34	43	166
2011	101	21	56	178
2012	108	31	49	188
2013	145	56	53	254
2014	154	50	59	263
2015	252	71	97	420
2016	401	136	113	650
2017	574	210	260	1044
2018	393	176	205	744
2019	360	129	178	667

¹ For Non-residential transactions, the VOC threshold of \$3M & \$4M have no relevance in terms of buyer affluence and have been excluded. May include misattributed non-residential transactions, particularly after 2016.

- Table 2 below expands on Table 1, also showing the number of annual MLTT transactions for properties greater than \$2M since the harmonization with the Provincial Land Transfer Tax in 2017².

Table 2: Total Transactions \$2M+ before and after rate increase to 2.5% from 2.0% for VOC > \$2M (Res only)**

Year	2M - 3M	3M - 4M	4M - 5M	5M+	Total
2016	1433	401	136	113	2083
2017	1736	574	210	260	2780
2018	1370	393	176	205	2144
2019	1348	360	129	178	2015

**May include some misattributed non-residential transactions, particularly after 2016

Graduated MLTT - Scenario Analysis

- Using the 2019 Residential MLTT transaction numbers as a basis, two scenario analyses were done with MLTT rates:
 - Scenario 1 - for properties greater than **\$3M** at a rate of **3%**;
 - Scenario 2 - for properties greater than **\$3M** at a rate of **3%** and **\$4M** at a rate of **3.5%**.

Table 3: Graduated Rate Scenarios

Value of Consideration	Current	Scenario 1	Scenario 2
\$0-\$55,000	0.50%	0.50%	0.50%
\$55,000 - \$250,000	1.00%	1.00%	1.00%
\$250,000 - \$400,000	1.50%	1.50%	1.50%
\$400,000 - \$2,000,000	2.00%	2.00%	2.00%
\$2000000 - \$3,000,000	2.50%	2.50%	2.50%
\$3000000 - \$4,000,000		3.00%	3.00%
\$4000000+			3.50%

- Revenue scenarios based on 2019 volumes, before deductions can be seen below:

Table 4: Revenue Scenarios (Based on 2019 Volumes)

Policy	2019 Volume
Scenario 1	\$2.6M
Scenario 2	\$5.5M

- Additional revenues noted in Table 4 of \$2.6 million (Scenario 1) and \$5.5 million (Scenario 2) are based on 2019 transaction volumes. Potential revenue generated

² Rate (2.5%) harmonized with the Provincial Land Transfer Tax March 1, 2017

from a graduated MLTT in 2020 or future years would be subject to actual market experience (i.e. annual volume of transactions above \$3 million).

Issues / Benefits with Directing MLTT revenue to Operating Budget Expenses

The MLTT is expected to generate nearly \$800 million in revenue in 2020. While the MLTT is now a significant revenue source for the City of Toronto, accounting for 7% of all City operating funding, the potential for market volatility presents risks with fully allocating these revenue to costs associated with day-to-day operating expenses. This was experienced in 2018 when MLTT revenue underperformed the budget by \$84.5 million compared to budget.

The following steps have been taken to mitigate these risks:

- Consistent with prior years, \$40 million or 5% of total expected MLTT revenue is directed towards the City's Capital Financing Reserve.
 - This reserves is used to funds future year capital projects, enabling greater flexibility in the management of any market volatility.
- Beginning in 2020, the recommended operating budget takes an additional step to manage MLTT risk while also leveraging expected MLTT revenue to grow the health of City reserves.
 - The 2020 budgeted MLTT revenue is based on the 2019 year-end experience, which is \$64.5 million greater than the 2019 budget.
 - Of this expected revenue growth, nearly half has been used to support added investments in the City's operating budget.
 - The other half of the expected MLTT growth has been directed to the City's Tax Rate Stabilization reserve, which both grows the health of the reserve as well as enhances mitigation efforts towards the risk of market volatility impacting funds available for day-to-day operations.
- Beginning in 2020, staff will also be exploring opportunities to direct larger portions of the MLTT and/or MLTT growth towards the City's capital program.
 - This change will both continue to enhance MLTT risk mitigation, while also proving support to capital needs.

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