

Report on Municipal Land Transfer Tax Rebate for First-Time Home Buyers

Date: June 8, 2020

To: City Council

From: Chief Financial Officer and Treasurer

Wards: Ward(s) affected or All

SUMMARY

City Council directed the CFO to report to the April 1, 2020 City Council Meeting on opportunities to provide First-Time Home Buyer (FTHB) with greater relief from the Municipal Land Transfer Tax (MLTT). This includes the maximum price eligibility threshold of \$400,000 to reflect increased home prices in Toronto. The rebate offsets the tax on up to \$400,000 of the purchase price.

RECOMMENDATIONS

The Chief Financial Officer recommends that:

1. City Council receive this report from the Chief Financial Officer and Treasurer for information.

FINANCIAL IMPACT

If Council elects to amend the MLTT rebate, or even signal its intent to make specific changes in the future, in-year real estate market reaction (e.g. real estate sales) could result, potentially impacting MLTT revenue. Changes to MLTT rebate structure should be considered as part of the City's annual budget process.

Potential revenue impacts (see tables below) would depend on how the FTHB rebate is amended. Based on the 2019 net MLTT revenue of \$791.2M, potential amendments to the maximum price eligibility threshold would result in revenue reduction ranging from \$27M to \$64M.

Rebate Options	Cumulative Impact on FTHB rebate per transaction Increase (Decrease)*	Estimated Cumulative Tax revenue impact – Increase (Decrease)
Increasing FTHB rebate threshold from:		
\$400,000 to \$500,000	\$2,000	(\$27.1M)
\$500,000 to \$600,000	\$4,000	(\$21.2M)
\$600,000 to \$700,000	\$6,000	(\$15.6M)

*Based on 2019 MLTT data per RSD

Applying a cap to the Value of Consideration (VOC) would achieve annual savings ranging from \$7M to \$35M.

VOC Capping	Reason for chosen figure	Savings (\$M)
575K	Median VOC for FTHB – 2019 actual	\$35.2
600K	Maximum qualified for Federal Incentive @ 20% down payment	\$32.2
645K	Average VOC for FTHB – 2019 actual	\$27.8
884K	Average resale price (City)	\$10.3
1,000K***	Random selection	\$6.8

**Assumes the volumes remain the same, in spite of the FTHB rebates available.

***Declining average exemption appears to be as a result of an increase in ownership for higher priced homes

DECISION HISTORY

City Council on January 29, 2020, adopted the following:

City Council direct the City Manager to report to the April 1, 2020 City Council meeting on opportunities to provide first-time home buyers with greater relief from the Municipal Land Transfer Tax, including increasing the maximum eligibility threshold of \$400,000 to reflect increased home prices in Toronto.

Member Motion Reference

Report [MM14.6](#) - Review of Municipal Land Transfer Tax Rebate for First-Time Home Buyers

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.MM14.6>

COMMENTS

The City of Toronto (City) is the only municipality in Ontario permitted to levy a municipal land transfer tax under the authorities provided by the City of Toronto Act, 2006 (COTA). City Council implemented the MLTT effective February 1, 2008. Under the COTA, the City has the authority to change the MLTT rate structure without legislative or regulatory approval. Effective March 1, 2017 MLTT rates have been harmonized with the Ontario Land Transfer Tax (LTT) rates as approved by Council.

Current Rate Structure

Value of Consideration	MLTT rates	
	SFR *	NSFR *
\$0-\$55,000.00	0.50%	0.50%
\$55,000.01 - \$250,000.00	1.00%	1.00%
\$250,000.01 - \$400,000.00	1.50%	1.50%
>\$400,000.00	2.00%	2.00%
>\$2 million	2.50%	

* SFR = properties with not more than 2 single-family residences

NSFR = All other properties = non-SFR

For example, if a non-exempt purchaser buys a property valued at \$1M:

City's MLTT payable = \$16,475
Provincial LTT payable = \$16,475
Total payable = \$32,950

Rebate Program

The City provides a rebate for any buyer that identifies themselves as a FTHB (having never previously owned a home anywhere in the world). The maximum City rebate is \$4,475, equivalent to the tax on a property with a VOC of \$400,000. The Ontario government has a similar province wide rebate equal to a maximum of \$4,000.

The FTHB rebate is designed to promote home ownership in the interest of social equity and stability, by making ownership more affordable and achievable for those who have never owned a property. In order to qualify for the rebate, the buyer must attest that they have never owned a home or had any ownership interest in a home, anywhere in the world.

When the MLTT was first introduced in 2008, staff estimated the rebate would cost about \$40 million per year and apply to about a third of the residential market. Since then the value of the rebates has increased with increases in sales volumes and market prices. In 2019, the total FTHB relief was \$67M, up from \$61M in 2018. However, a review of FTHB data suggests that the impact of the rebate may be waning. As a percentage of gross FTHB MLTT, FTHB rebates accounted for 74% in 2010. By 2019 that figure dropped to 42%. Table 1 summarizes the annual rebates from 2010 to 2019.

Table 1: FT HB Rebates (Res only)

Year	FT HB Exemption	Gross MLTT	FT HB rebate as a % of Gross MLTT	Average FT HB Rebate
2010	\$58,522,594	\$78,559,949	74%	\$2,752
2011	\$58,572,520	\$83,951,857	70%	\$2,852
2012	\$53,713,463	\$81,630,353	66%	\$2,911
2013	\$54,462,140	\$87,129,283	63%	\$2,961
2014	\$58,098,554	\$99,617,242	58%	\$3,017
2015	\$65,647,369	\$121,152,383	54%	\$3,081
2016	\$67,235,726	\$140,070,407	48%	\$3,182
2017	\$68,204,976	\$147,081,270	46%	\$3,824
2018	\$61,405,141	\$137,740,378	45%	\$3,964
2019	\$67,478,303	\$159,398,990	42%	\$3,989

Rebate for FT HB

The putative objective of the rebate is to help renters achieve ownership, which in turn would increase availability of rental stock. There has been little if any research demonstrating its effectiveness, and may be some evidence to suggest it is not doing as it was intended to do.

The program has been criticized for adding upward pressure on home prices, increasing cost to the City and benefiting those who may not be in need of relief. The maximum FT HB VOC was \$6.8M in 2019 and \$5.3M in 2018. These values do not appear to be consistent with the purpose of a FT HB.

Although the FT HB volumes fluctuate (typically 35% of total residential transactions) it has been trending down since 2016. In addition, the number of FT HB rebates issued in 2016 was just above 21K and at the end of 2019 it declined by 20%, down to a little under 17K. The average FT HB VOC in the same time period went from \$528K to \$645K, an increase of 22% in the average housing price. Table 2 summarize some key FT HB data since 2016.

Table 2: FT HB Transactions VOC (Res only)

Year	Number of FT HB	Average VOC (\$)	FT HB as a % of Total Res Transactions (Volume)	Average MLTT Collected	Average FT HB Rebate
2016	21,129	528,000	35%	\$3,447	\$3,182
2017	17,835	586,000	29%	\$4,422	\$3,824
2018	15,487	615,000	26%	\$4,929	\$3,964
2019	16,913	645,000	26%	\$5,435	\$3,989

The City's FTTHB rebate can apply to any residential transaction. Table 3 shows that in 2019, 21% of the transactions where the purchases identified as a FTTHB related to prices below \$400K; this figure was 42% in 2016.

Table 3: FTTHB: 2019 Data (Res only)

Value of Consideration	FTTHB Transaction Volume		Value of the FTTHB Rebate
	Count	% of total	
\$0-\$55,000.00	98	1%	\$0.003M
\$55,000.01 - \$250,000	480	3%	\$0.724M
\$250,000.01 - \$400,000	2836	17%	\$9.7M
\$400,000.01 - \$1,000,000	11,839	70%	\$50.2M
\$1,000,000.01 - \$2,000,000	1,511	9%	\$6.2M
>\$2,000,000	149	1%	\$0.610M
Total	16,913	100%	\$67.4M

Potential FTTHB Changes

Tables 4 and 5 below summarize the estimated cost of potential changes to the FTTHB rebate as requested by City Council.

Table 4: Summary of Potential FTTHB Changes (Res only)

Rebate Options	Cumulative impact on FTTHB rebate per transaction Increase (Decrease)*	Estimated cumulative Tax revenue impact – Increase (Decrease)
1. Increasing FTTHB rebate threshold from:		
\$400,000 to \$500,000	\$2,000	(\$27.0M)
\$500,000 to \$600,000	\$4,000	(\$21.2M)
\$600,000 to \$700,000	\$6,000	(\$15.6M)
2. Eliminating City's FTTHB rebate	(\$4,475)	\$67.4M

*Based on 2019 MLTT data per RSD

Increasing FTTHB rebate thresholds example (\$400,000 to \$500,000)

The City MLTT on the first \$400,000 transaction price is \$4,475. For a home worth \$500,000, the total tax payable is \$6,475, an additional \$2,000 (at the marginal rate of 2%). For a first-time home buyer, the amount of tax payable is only \$2,000, or 0.40% of the purchase price. If the rebate threshold is increased from \$400,000 to \$500,000, those transactions for purchases between the two values which were previously taxable are now tax exempt, and the City would incur a cumulative tax loss, estimated at \$27 million based on 2019 data.

Eliminating City's FTHB rebate

If the City eliminates the first-time home buyer's rebate, all those transactions that previously qualified for the rebate would now pay the applicable tax of up to \$4,475, resulting in an estimated tax revenue increase of \$67.4 million based on 2019 data.

Table 5: VOC Capping Scenarios (Res only)

VOC Capping	Reason for chosen figure	Average Exemption (Screened Out)	Volume (Screened Out)**	Savings (\$M)
575K	Median VOC for FTHB – 2019 actual	\$4,174	8,422	\$35.2
600K	Maximum qualified for Federal Incentive @ 20% down payment	\$4,161	7,736	\$32.2
645K	Average VOC for FTHB – 2019 actual	\$4,138	6,726	\$27.8
884K	Average resale price (City)	\$4,084	2,529	\$10.3
1M***	Random selection	\$4,075	1,660	\$6.8

**Assumes the volumes remain the same, in spite of the FTHB rebates available.

***Declining average exemption appears to be as a result of an increase in ownership for higher priced homes

VOC Capping Scenarios

VOC transactions between \$400K and \$800K accounted for 66% of all FTHB transactions in 2019, generating \$42.5M in rebates. In 2016, the average FTHB VOC was \$528K, that figure jumped to \$645K by 2019. With prices trending up, the City could look at potentially restricting (capping) the rebate to purchases under a set FTHB VOC amount, potentially achieving savings annually. Using the 'random selection' option, the City would achieve savings of \$6.8M by screening out any purchases above \$1M.

The capping scenarios could be considered in conjunction with increasing the maximum eligibility threshold noted above. For instance, some of the revenue lost by increasing the eligibility threshold from \$400K to \$500K (\$27.0M) could be recouped from the savings (\$6.8M) achieved through screening out transactions above \$1M VOC.

CONTACT

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SIGNATURE

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