

## **2021 Capital and Operating Budget Supplemental Report: Municipal Land Transfer Tax**

**Date:** February 17, 2021

**To:** City Council

**From:** Chief Financial Officer and Treasurer

**Wards:** All

### **SUMMARY**

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At its meeting on February 4, 2021, Budget Committee requested that the Chief Financial Officer and Treasurer provide a supplemental report to the next meeting of City Council on the Municipal Land Transfer Tax, detailing:

- a) The tax rate for home sales in the City of Toronto when including the required provincial Land Transfer Tax on top of the City's Municipal Land Transfer Tax, as compared to the tax rates of home sales for other Ontario municipalities;
- b) The number of homes in the City worth over \$1.4 million, including the breakdown by ward;
- c) The number of homes in the City worth over \$2 million, including the breakdown by ward;
- d) How an increase in the MLTT on homes worth over \$2 million could tighten the housing supply of homes worth under \$2 million; and
- e) Why City Staff recommend that any additional revenues from an increased MLTT rate be directed to the Capital Finance Reserve, and why they recommend against putting any such additional revenues into operating budget spending.

This report responds to the information request.

### **FINANCIAL IMPACT**

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There are no direct financial impacts arising from the information in this report.

## DECISION HISTORY

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On February 4, 2021, the Budget Committee, in its consideration of Item BU30.2: Capital and Operating Budgets, and via Motion 1f, requested that the Chief Financial Officer report directly to the February 18, 2021 special meeting of City Council on Municipal Land Transfer Tax. Link to Committee decision:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.BU30.2>

## COMMENTS

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- a. The tax rate for home sales in the City of Toronto when including the required provincial Land Transfer Tax on top of the City's Municipal Land Transfer Tax, as compared to the tax rates of home sales for other Ontario municipalities.**

In February 2008, COTA put in place the authority for the City to levy its own Municipal Land Transfer Tax ("MLTT") in parallel with the Ontario government

The City of Toronto is the only municipality in Ontario to levy a MLTT. When purchasing property in the city of Toronto, the buyer pays both the provincial land transfer tax ("LTT") and the MLTT currently at matching rates, hence double the rate paid in all other municipalities in Ontario.

Ontario LTT		MLTT	
Value of Consideration	Rate	Value of Consideration	Rate
Up to and including \$55,000.00	0.5%	Up to and including \$55,000.00	0.5%
\$55,000.01 to \$250,000.00	1.0%	\$55,000.01 to \$250,000.00	1.0%
\$250,000.01 to \$400,000.00	1.5%	\$250,000.01 to \$400,000.00	1.5%
Over \$400,000.00	2.0%	\$400,000.01 to \$2,000,000.00	2.0%
Over \$2,000,000.00	2.5%	Over \$2,000,000.00	2.5%

For example, the combined top marginal land transfer tax in Toronto is 5.0% for the portion of the sale above \$2 million for a residential property.

- b. The number of homes in the City worth over \$1.4 million, including the breakdown by ward; and**
- c. The number of homes in the City worth over \$2 million, including the breakdown by ward;**

The fair market value of a home is determined only at the point of sale. There is no dataset that measures the individual market value of housing stock which is not transacting for. The market value of all homes in Toronto, and number of homes above certain value thresholds, can therefore only be estimated.

For the purposes of property taxation, MPAC assesses all properties in Ontario on a 4-year cycle to establish a current value assessment (CVA). A property's CVA is based on recent sales of comparable properties for a specific valuation date. The most recent valuation date is January 1, 2016 - the 2020 reassessment was postponed due to COVID-19.

While the current market values for all homes in Toronto are not available, property tax data (January 1, 2016, valuation) can be used to examine Toronto's residential stock. Toronto's housing market has experienced substantial appreciation, with average sale prices growing by approximately 40% between 2016 and 2021.

An analysis was performed to adjust current \$1.4 million and \$2 million value thresholds to 2016 equivalents by this 40% factor in order to estimate the current number of properties above those value thresholds from the existing CVA dataset.

The results of this analysis suggest that there are currently approximately 126,000 residential properties valued over \$1.4 million and approximately 57,000 residential properties valued over \$2 million in the City of Toronto.

It is noted that actual sale prices for homes, which form the key input of the MLTT will vary from the CVA.

Breakdown by wards and data assumptions are provided in the attachment to this report.

- d. How an increase in the MLTT on homes worth over \$2 million could tighten the housing supply of homes worth under \$2 million.**

Based on data from TRREB and Teranet, we have noted a softening of the luxury sales market (home values \$2M or more) as a result of several factors including interest rates, government policies and buyer preferences. Implementing new upper tiers and rates on values could have negative, yet transitional, impacts on the housing market

A new MLTT tier(s) would incentivize buyers and sellers to transact below the cut off.

New tiers could discourage current home owners from up-sizing to lower-end luxury homes; which could potentially tighten housing supply for mid-value homes.

**e. Why City Staff recommend that any additional revenues from an increased MLTT rate be directed to the Capital Finance Reserve, and why they recommend against putting any such additional revenues into operating budget spending.**

MLTT revenue varies each year in tandem with changing sales market performance which makes revenue predictability less certain.

Operating budget planning is better managed with more predictable and steady revenue sources.

Accordingly, 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, predictable, ongoing operating expenses.

The Long term Financial Plan identified the need for a strategy to reduce operating budget exposure to MLLT deficits

## **CONTACT**

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Habeeb Baiyewu, Senior Financial Analyst, Corporate Financial Strategies & Policy  
Tel.: (416) 397-4117; E-mail: [habeeb.baiyewu@toronto.ca](mailto:habeeb.baiyewu@toronto.ca)

Christopher Toomey, Senior Financial Analyst, Corporate Financial Strategies & Policy  
Tel.: (416) 397-4283; E-mail: [Christopher.Toomey@toronto.ca](mailto:Christopher.Toomey@toronto.ca)

Andrew Flynn, Controller  
Email: [Andrew.Flynn@toronto.ca](mailto:Andrew.Flynn@toronto.ca); Tel.416-392-8427

## **SIGNATURE**

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Heather Taylor  
Chief Financial Officer and Treasurer

## **ATTACHMENTS**

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Attachment 1: Residential Properties with CVA above certain thresholds

## Attachment 1 – Residential properties with CVA above certain value points

### Adjusted for 2021

Ward	1.4 Million CVA Threshold (adjusted from 2016 to 2021)		2 Million CVA Threshold (adjusted from 2016 to 2021)	
	# Properties	% of Total Residential	# Properties	% of Total Residential
1	228	0.9%	50	0.2%
2	6,860	20.5%	2,759	8.2%
3	6,223	12.5%	2,232	4.5%
4	9,487	34.9%	2,379	8.7%
5	771	3.1%	166	0.7%
6	3,167	13.1%	1,207	5.0%
7	187	0.9%	20	0.1%
8	14,571	48.6%	8,844	29.5%
9	3,127	9.6%	446	1.4%
10	3,540	4.5%	899	1.1%
11	14,279	36.7%	7,462	19.2%
12	10,306	32.8%	6,819	21.7%
13	2,429	5.8%	611	1.5%
14	4,856	15.6%	899	2.9%
15	16,968	66.6%	11,528	45.3%
16	2,787	13.6%	689	3.4%
17	5,591	16.0%	2,055	5.9%
18	11,472	25.1%	5,365	11.7%
19	5,087	16.8%	1,698	5.6%
20	1,769	6.6%	525	2.0%
21	262	0.9%	38	0.1%
22	902	3.1%	101	0.3%
23	309	1.2%	64	0.2%
24	299	1.3%	125	0.6%
25	764	2.7%	98	0.3%
	<b>126,241</b>	<b>15.6%</b>	<b>57,079</b>	<b>7.1%</b>

- CVA reflects the MPAC assessed value, which may be below the market value a property would have transacted for at the time
- 2016 CVA data adjusted to current 2021 estimated value by average increase of 40% market change
- Inclusive of Residential class properties with multiple units but one owner (e.g. LTC Homes) are reflected as one property with large value
- Appreciation in the housing market varies differently across different housing types and price tiers
- Housing stock that is unaffected by MLTT until point of sale
- The number of properties with an adjusted CVA above 1.4 or 2 million is not directly reflective of the number of properties that would have a fair market value above those limits today.