

# Intelligence MEMOS



From: Benjamin Dachis, Bev Dahlby, and Jack Mintz  
To: Toronto City Council  
Date: July 13, 2021  
Re: **LOWER, DON'T RAISE, THE TORONTO LTT**

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In its meeting this week, Toronto City Council is to discuss an increase in the land transfer tax (LTT) on high-end homes. Our analysis of the impacts of such a move is intended to help inform the deliberations.

In our new C.D. Howe Institute [E-brief](#), we argue that the top LTT rate should not be increased, but rather reduced because it is a costly source of revenue to the wider economy. Indeed, the top LTT rate should be dramatically reduced. Even a one-point cut to the combined provincial-municipal top LTT rate from 5 to 4 percent would still leave the LTT as perhaps the most economically costly major revenue source in the province.

The City of Toronto, under the authority of Ontario's *City of Toronto Act*, 2006, is the only municipality in Ontario that has the authority to impose its own LTT. In 2017, Toronto introduced a new top marginal rate of 2.5 percent of the value of a house above \$2 million. The province also added a top bracket at the same time, and the provincial LTT, which also applies outside of Toronto, now applies the same rates to the same brackets as Toronto's. Both the provincial government and Toronto allow a small rebate of LTT paid for first-time home buyers.

In 2019, Toronto collected just under \$800 million in LTT, which represented 5.6 percent of its total revenue that year, 7.3 percent of own-source revenue, 18 percent of total municipal property taxes, and 28 percent of municipal residential property taxes. The province collected \$2.9 billion in 2019/20, representing 2 percent of total revenues.

Economic studies have generally found that land transfer taxes have a relatively high economic cost because they discourage people from moving to more favourable locations or housing when they can do so. Instead, owners stay longer in their home, electing perhaps to renovate it. Based [on an estimate of](#) the impact of the LTT on land transfers in Toronto, we find that the current combined rate of 5 percent on homes in excess of \$2 million is highly distortionary.

To gain some appreciation of how distortionary the top LTT rate is, we calculate the economic cost of reduced economic activity from the LTT using a method called the marginal cost of funds (MCF). If the combined rate were reduced from 5 percent to 4 percent the MCF would still be 10.49, higher than [estimates of the MCFs](#) for Ontario's corporate income tax of 2.62 and personal income taxes of 6.76 based on 2020 tax rates. If the top rate were 3 percent, the MCF would still be 3.28. This confirms the widely held view among economists that the LTT is a high-cost source of tax revenues.

The current rate is close to the rate that maximizes total LTT revenues for the city and province combined. With an increase in the top tax rate, the number of land transfers will decline and therefore the government of Ontario's LTT revenues will decline. In other words, if Toronto increased its top tax rates, Toronto's revenues would increase, but the government of Ontario's revenues would decline by more than the increase in Toronto's revenues.

If Toronto wishes to increase its revenues, especially from residential property worth more than \$2 million, it should study an increase in the annual property tax rate on such properties. Although a so-called "mansion tax" would add some complications to the tax assessment process and would no doubt increase the number of appeals around the threshold, it would not reduce the number of property transfers. Such a measure is worth further study ahead of increasing the LTT.

It is difficult to justify a land transfer tax. It is unrelated to services provided by governments, unlike the property tax, which is arguably related to municipal services. The land transfer tax is also a volatile source of tax revenues that increase rapidly during a housing market boom, but then decline sharply when housing markets crash. This volatility makes them unsuitable for municipal governments with relatively stable expenditures and the need to balance their budgets every year.

As City Council debates the merits of various revenue tools, it should not pursue further an increase in the LTT.

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