

Intelligence MEMOS



From: Benjamin Dachis
To: Governments of Ontario and BC
Date: August 11, 2016
Re: PROPERTY TRANSFER TAXES HURT CURRENT HOMEOWNERS, NOT FOREIGN BUYERS

Starting August 2, the [province of British Columbia](#) collects a 15 percent property transfer tax on purchases of real estate by non-Canadian people and corporations. That is on top of the existing 3 percent top marginal transfer tax that applies on all sales regardless of the buyer.

The province of B.C. – and other governments looking to impose a tax on foreign buyers – should look at the evidence from Toronto’s transfer tax that the people who are most likely to feel the economic pain of the transfer tax are current homeowners, not foreign buyers.

Many provinces and municipalities across Canada levy property or land transfer taxes. The buyer pays a tax proportional to the value of the purchase. The new B.C. tax is the first major change in a Canadian property transfer tax since the City of Toronto introduced one starting in early 2008.

Until 2008, only the province of Ontario had a top transfer tax rate of 2 percent. Starting in January of 2008, the City of Toronto introduced an additional tax with a top rate of 2 percent.

Until last week, Toronto’s transfer tax was tied for the highest top statutory rate in North America. Vancouver’s combined 18 percent tax for non-residents will be more than four times Toronto’s combined top rate of 4 percent.

Although Vancouver’s top rate is much higher, the economic effects will likely be similar to Toronto’s for the kinds of houses in which foreign buyers are a large share of potential buyers. After disentangling the effect of the transfer tax from underlying market trends, the [evidence](#) shows that Toronto’s transfer tax caused a 16 percent decrease in the number of single-family home sales. Further, Toronto’s transfer tax caused an approximately 1.5 percent reduction in the average sale price of a Toronto home.

The transfer tax also had different effects depending on the relative price of the home. The reduction in property values was largest for those with higher value houses, but the drop in sales was small. The implication for Vancouver is that many homeowners at the high end of the market – hardly folks for whom the public’s hearts are likely to bleed – are going to see the largest drop in the value of their homes, but their sales may still go ahead despite the tax.

The Toronto transfer tax had the most effect on the mobility of those buying lower-priced housing. That means that the Vancouver tax may result in current homeowners who want to sell – everyone from retirees downsizing to families moving to neighbourhoods with better schools – left in homes that will be harder to sell.

The [best solution](#) to the high cost of housing is loosening building restrictions and lowering the costs of building. The [latest research from the UK](#) shows that strict restrictions on building new housing makes homes both more expensive and increases the share of homes left vacant.

Ontario’s Finance Minister said [he was looking](#) “very closely” at the B.C. tax. Before Ontario follows B.C.’s lead, it should remember that although buyers write the transfer tax checks, current homeowners risk being poorer because of any transfer tax.

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