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The Perils of Non-Indexation - Three Tax Issues Affecting Canadian Housing Markets

Prepared for:

**Canadian Association of
Accredited Mortgage Professionals**

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November 2007

Introduction and Summary

Introduction

Housing markets are affected by many economic issues. Taxation issues are certainly influential, through direct effects as well as through indirect effects. For example, many taxes affect housing affordability either by influencing the amounts of money that Canadian can afford to pay for housing, or by altering the costs of housing.

This report focuses on three areas in which certain “thresholds” that are associated with taxes have not been altered over time, with the consequence that housing affordability in Canada has been incrementally reduced.

Those three issues are:

- Thresholds for the GST new homes rebate have not been altered since the GST was introduced in 1991.
- Contribution limits for the Home Buyers Plan have not been increased since the program became available in 1992.
- For Land Transfer Taxes, non-indexation of the tax brackets has resulted in an increase in average taxation rates.

This research report assesses the implications of the non-indexation. It has been completed by Will Dunning, Chief Economist for the Canadian Association of Accredited Mortgage Professionals (“CAAMP”).

Summary of Findings

Non-Indexation of Thresholds For GST Rebate

As is shown below, the conclusion is that the effective amount of GST paid per new home increased by 95% from 1991 to 2007. This is 2.5 times more than the rate of growth for average weekly wages in Canada.

Even with the recent announcement of a reduction in the GST rate to 5%, the effective amount of GST per dwelling unit that might be payable in the near future will be 67% higher than in 1991, which remains well in excess of wage growth over the same period (38.6%).

Another perspective compares the GST paid on new homes with the amounts paid for other goods and services:

- For “goods excluding food purchased from stores”, the amount of GST has increased by just 8% compared to 1991 (versus 95% for new homes). After the reduction in the GST to 5% is accounted for, the amount of GST paid will have fallen by 10% (versus a 67% rise for new homes).
- For “services excluding shelter”, the amount of GST has increased by 36% compared to 1991 (versus 95% for new homes). After the reduction in the GST to 5%, the

amount of GST paid will have increased by just 13% (versus the 67% rise for new homes).

Because the thresholds for the GST new homes rebate remain frozen-in-time at 1991 levels, it can be expected that the effective GST rate on new homes will continue to rise in future.

No Increase in Contribution Limits for the Home Buyers' Plan

The Home Buyers' Plan ("HBP") was introduced in 1992, to allow Canadians to withdraw money from their Registered Retirement Savings Plans, to make down-payments on home purchases. Since 1994, the HBP has been limited to first-time home buyers.

The average house price in Canada has doubled since the HBP was introduced in 1992. However, the maximum amount that can be withdrawn from RRSPs (\$20,000 per individual and \$40,000 per couple) has not been increased.

The consequence is that the maximum HBP withdrawals represent a shrinking percentage of house prices. Therefore, the amount of other finance (down-payments from other sources and/or mortgage finance) that buyers must find has increased very rapidly. The scenario developed here finds that, for couples making the maximum withdrawal, the required amount of other finance has increased by 161% (on average for Canada) since 1992. The result is that the Home Buyers' Plan is providing much less support to home buying in Canada.

Non-Indexation of Brackets for Land Transfer Taxes

Some provinces levy land transfers taxes ("LTT") – these are fees paid by home buyers when they become the registered owners of properties. The amounts of these taxes have increased rapidly during the past decade. In part, the increases are in-line with the rapid growth of house prices. But, the increases have been even more rapid because the taxes are calculated based on sliding scales, and the brackets for those scales have not been adjusted. The consequence is that average tax rates for LTTs have increased during the past decade.

In each of the four provinces that are profiled in this report, the amounts payable for LTT have more than doubled during the past decade. The increases are far in excess of growth of average weekly wages and overall inflation (both at 23% over the same period).

Land transfer taxes do not pass any tests of fairness. They are discriminatory (applying only to a small percentage of the population each year) and the amounts paid cannot be justified based on any reasonable measure of costs to government or society at-large.

These very rapid increases in land transfer taxes have pushed them even further into the realm of unfairness.

Recommendations

For each of these three tax situations, it is recommended that the applicable thresholds be updated to reflect increases in the New House Price Index since the inception of the thresholds.

Going forward, the thresholds should be updated annually based on changes in the New House Price Index.

For the GST new homes rebate and the Home Buyers' Plan, the New House Price Index for Canada should be used. For Land Transfer Taxes, the applicable provincial indexes should be used.

About CAAMP

CAAMP is the national organization representing Canada's mortgage industry. With over 10,500 mortgage professionals, its membership is drawn from every province and from all industry sectors. This diversified membership enables CAAMP to bring together key players with the aim of enhancing professionalism.

In 2004, CAAMP (formerly the Canadian Institute of Mortgage Brokers and Lenders, or "CIMBL") established the Accredited Mortgage Professional ("AMP") designation to enhance educational and ethical standards for Canada's mortgage professionals.

Established in 1994, CAAMP has taken a leadership role in Canada's mortgage lending industry and has set the standard for best practices in the industry.

CAAMP's other primary role is that of consumer advocate. On an ongoing basis CAAMP aims to educate and inform the public about the mortgage industry. Through its extensive membership database, CAAMP provides consumers with access to a cross-country network of the industry's most respected and ethical professionals.

About the Author

Will Dunning is an economist (BA, MA), and has specialized in the analysis and forecasting of housing markets for the past 26 years. In addition to acting as the Chief Economist for CAAMP he operates an economic analysis consulting firm, Will Dunning Inc.

Disclaimer

This report has been compiled using data and sources that are believed to be reliable. CAAMP, Will Dunning, and Will Dunning Inc. accept no responsibility for any data or conclusions contained herein.

The opinions and conclusions in this report are those of the author and do not necessarily reflect those of CAAMP.

The Goods and Services Tax

The Goods and Services Tax (“GST”) was introduced in 1991. It replaced the existing Federal Sales Tax (“FST”) which applied to manufactured goods. Under the Federal Sales Tax, only part of the cost of a new home would be subject to taxation (the building materials and other goods); the majority of the cost of new homes (labour, land costs, professional services, and the various fees paid to municipalities) would not have been subject to the FST.

Therefore, if the GST rate was applied to the full market value of new homes, the result would have been a sharp increase in taxes, which would reduce housing affordability.

At the time, the federal government decided that buyers of new homes would be entitled to a rebate of 36% of the GST paid. Thus, while the GST rate was 7%, after the rebate, the effective rate of GST would be 4.48%. The amount of this rebate was apparently based upon the federal government's estimate of what would provide a tax-neutral outcome – if the rebate percentage was estimated correctly the result would be that the GST paid would not be higher than would be paid under the FST.

However, the federal government also imposed limits on the amount of rebate. The full 36% reduction was available for homes priced up to \$350,000. The rebate is phased out for houses priced between \$350,000 and \$450,000 (for homes priced at \$450,000 or above there is no rebate and the effective tax rate was equal to the full 7%). Therefore:

- Homes priced above \$350,000 have a higher effective tax rate than do homes priced at or below the \$350,000 threshold.
- For homes priced above \$350,000, taxes paid under the GST are increasingly higher than would have been paid under the FST.

These thresholds have not been adjusted since the GST was introduced in 1991, despite the fact that house prices have increased considerably. The consequence is that the average effective tax rate has increased for new homes. This has reduced housing affordability in Canada.

The Rebate Has Not Kept Up With Housing Costs

When the GST and the rebate for new homes was introduced in 1991 the federal government made a commitment that it would “review these thresholds at least every two years and adjust them as necessary to ensure that they adequately reflect changes in economic conditions and housing markets”¹.

However, that commitment has not been met – in the almost 17 years that have passed since the GST came into force, the thresholds have not been adjusted. During 1991 to the present, the average price of new single-detached and semi-detached homes in

¹ As reported by The Canadian Home Builders’ Association in its various reports on this issue, this commitment was made in the Technical Paper on the GST released in 1989 (page 19).

Canada increased by 96%, according to data from Canada Mortgage and Housing Corporation on prices for newly-completed housing².

Detailed data from CMHC³ has been used to analyze prices for newly completed homes in Canada. The data, which is summarized in Table 1 below, shows that in 1991, 91% of new single-detached and semi-detached homes were priced below the \$350,000 threshold, and therefore were entitled to the full rebate. Just 5% of homes were priced from \$350,000 to \$449,999 (and were entitled to partial rebates). Only 4% of homes were priced at \$450,000 or more and therefore were not entitled to any rebate.

In 2007, much has changed: just 52% of new homes are entitled to full rebates (down from the 1991 figure of 91%); 22% are eligible for partial rebates (versus the prior 5%); and 26% are not eligible for any rebate (far in excess of the prior figure of 4%).

<i>Price Range</i>	<i>1991</i>	<i>2007 (9 months)</i>
% Below \$350,000	91%	52%
From \$350,000 to \$450,000	5%	22%
% Above \$450,000	4%	26%
Total	100%	100%
Source: calculations by the author, using data from Canada Mortgage and Housing Corporation		

GST Paid on New Homes

The data from CMHC has been used to estimate how much GST would be paid by these homes as of 1991 and 2007, including the gross amounts (before the rebates) and what is of more interest, the net amounts after the rebates. Table 2 (below) summarizes the estimates. For 2007, two estimates have been developed, reflecting the GST rate of 6% that was in effect for most of the year. The second scenario provides an indication of the amounts of GST that might be paid in the near future (at current house prices), due to the reduction in the GST rate (to 5%) that was announced on October 30.

The methodology is summarized at the end of this section.

As the table shows, in this dataset the average price of newly-completed single-detached and semi-detached homes in Canada has increased by about 93% since 1991. The gross amount of GST paid has increased by a smaller amount (about 66%).

² The average price for 1991 was \$202,430; for the first nine months of 2007, the average was \$396,721. These figures apply to urban areas with populations of 50,000 or greater. An alternative measure of house price change is from Statistics Canada's New House Price Index. This shows an increase of 50.5% (comparing the average index for all of 1991 to the average for the first nine months of 2007). The NHPI is widely considered to under-estimate actual increases in house prices, because it does not capture increases that occur when new developments are brought to market (it captures only increases that occur within a development after marketing has started).

³ Information on the data provided by CMHC is contained in the Methodology section below.

This slower increase for the amount of gross taxes occurred because at mid-2006 the GST tax rate was decreased to 6% from the prior 7%. At the newly-announced GST rate of 5%, the amount of gross GST will have increased by 43%.

As is shown, the average rate of GST rebate has fallen from just over 2% in 1991 to just under 1% for the first nine months of 2007 (and even lower after the reduction in the GST rate to 5%).

The dollar amount of GST rebate has fallen. For the first nine months the amount has fallen by about 6%, despite the 93% rise in house prices. Based on the new GST rate of 5%, the amount of rebate would have fallen by about 18%.

The consequence is that in the first nine months of 2007, the net amount of GST has increased by 95% since 1991, and averaged more than \$19,000 per home. This 95% rise in GST paid per home has occurred despite the fact that the GST rate has been reduced to 6%.

With the reduction in the GST rate to 5%, the gross amount of tax has been reduced compared to what it was at the 6% rate. However, the amount of the subsidy is also reduced. The consequence is that the net amount of GST that might be paid in the near future (at current house prices) is 67% higher than in 1991 (at an average of about \$16,500 per home).

Table 2					
GST Paid for New Single-Detached and Semi-Detached Homes					
In Canada, 1991 versus 9 Months of 2007					
	1991	2007 (6% GST Rate)	% Change Versus 1991	2007 (5% GST Rate)	% Change Versus 1991
Estimated Average Price in Dataset	\$198,831	\$384,525	93.4%	\$384,525	93.4%
GST Paid In \$s					
Gross	\$13,918	\$23,072	65.8%	\$19,845	42.6%
Rebate	\$4,038	\$3,785	-6.3%	\$3,324	-17.7%
Net	\$9,880	\$19,286	95.2%	\$16,521	67.2%
GST as % of Selling Price					
Gross	7.00%	6.00%	-1.00 (1)	5.00%	-2.00 (1)
Rebate	2.03%	0.98%	-1.05 (1)	0.84%	-1.19 (1)
Net	4.97%	5.02%	0.05 (1)	4.16%	-0.81 (1)
Source: calculations by the author using data from Canada Mortgage and Housing Corporation					
Note: (1) change in percentage points					

To put these increases in the net GST per home into context, during the same period:

- Consumer prices in Canada have increased by 34.4%.
- The average weekly wage in Canada has increased by 38.6%.
- Since 1991, the amount of net GST payable on a new home has increased 2.5 times more rapidly than the average weekly wage in Canada (based on the 6% rate that applied for most of 2007). Even after the reduction of the GST rate to 5%, the

amount of GST payable on a new home has increased much more rapidly than wages – by 67% for the GST versus about 39% for wages.

Table 3			
Change in GST Per New Home Versus Overall Inflation and Wage Growth			
	1991	2007 (9 months)	% Change
Effective GST Per New Home			
Based on 6% rate for 2007	\$9,880	\$19,286	95.2%
Based on 5% rate		\$16,521	67.2%
Consumer Price Index (1)	82.8	111.3	34.5%
Average Weekly Wage (2)	\$553	\$767	38.6%
Source: calculations by the author, using data from Statistics Canada			
Notes:			
(1) from Consumer Price Index all-items for Canada (2002=100).			
(2) from Statistics Canada Survey of Employment, Earnings, and Hours. Average weekly earnings, Canada; All employees; Including overtime; Industrial aggregate excluding unclassified; average wage for 2007 is based on first 8 months			

GST Paid on Other Goods and Services

Another perspective looks at the amounts of GST that paid by consumers for other goods and services.

The first comparison is with the category of “goods excluding food purchased from stores”.

- From 1991 up to the first nine months of 2007, inflation within this category totalled 24.7%. Combining this inflation with the GST rates that applied for 1991 (7%) and 2007 (6%) it is calculated that the average amount of GST paid increased by just 8% (versus the 95% increase in GST paid on new homes).
- After the October 30, 2007 reduction of the GST rate to 5%, the amount of GST paid will have actually fallen by 10% for this category of “goods excluding food purchased from stores”. The GST paid on new homes will have increased by 67%.

A second broad comparison is with the category of “services excluding shelter services”.

- Inflation within this category totalled 56.8% during 1991 to the first nine months of 2007. Combining this inflation with the GST rates for 1991 and 2007, the average amount of GST paid increased by 36% (versus the 95% increase in GST paid on new homes).
- After the October 30, 2007 reduction of the GST rate, the amount of GST paid will have increased by just 13%. The GST paid on new homes will have increased by 67%.

Recommendation

It is recommended that the thresholds for the new homes rebate be updated to reflect increases in the New House Price Index (for Canada) since 1991. For 2007, the thresholds would be increased by 40.7%, to reflect the change in the NHPI during 1991 to 2006. This would put the lower threshold (currently \$350,000) at about \$492,500 and the upper thresholds (currently \$450,000) at about \$633,000.

Going forward, the thresholds should be updated annually based on changes in the New House Price Index.

Methodology - Using CMHC House Price Data to Estimate GST Amounts

CMHC provided a custom tabulation of data on the numbers of units completed, by price range, for 1991 and the first nine months of 2007. The price ranges start at "less than \$100,000" then increase in increments of \$10,000 until a price of \$700,000 is reached, leaving the top range as \$700,001 and over.

For each of these ranges, the amounts of GST paid were calculated:

- "Gross" GST equals 7% of the price in 1991 and 6% of the price in 2007 (with another set of estimates based on the 5% rate that was announced on October 30). The calculation assumes that within each price range, the average price is at the mid-point of the range; for prices of \$100,000 or less, the assumed price was \$80,000; for prices greater than \$700,000, the assumed price was \$950,000 (these latter two assumptions are based on other CMHC data).
- The GST rebate is based on 36% of the gross GST, and is phased out for prices between \$350,000 and \$450,000,
- "Net" GST is the gross amount minus the rebate.

The data provided by CMHC covers urban centres with populations of 50,000 and over. For 1991, the dataset includes 66,655 units, or 72% of the 93,066 single-detached and semi-detached units that were completed in all areas of Canada. For the first nine months of 2007, the dataset includes 64,582 units, or 70% of the 92,328 single-detached and semi-detached units that were completed in all areas of Canada.

Housing units that are not included in this dataset would, in all likelihood, have lower prices and would on average pay GST at a lower effective rate than has been calculated for the sample.

Within the dataset provided by CMHC for this research, data is recorded as of the date of completion. In other data published by CMHC, the data is as of the date of absorption. The consequence is that the data in this set may vary slightly from that published elsewhere by CMHC, in terms of numbers of units and average prices. The differences between the two datasets are not large enough to materially alter the conclusions.

The Home Buyers' Plan

The Home Buyers' Plan ("HBP") was introduced in 1992, to promote access to home ownership. It allows first-time buyers to withdraw up to \$20,000 from Registered Retirement Savings Plans⁴ to be used for down-payments. In 1994, the plan was amended to limit it to first-time buyers. Both members of a couple may withdraw the \$20,000 maximum for a combined total of up to \$40,000.

By increasing down-payments and reducing requirement for mortgage financing, the monthly cost of home ownership is reduced and access to home ownership has been expanded.

The maximum amounts for HBP withdrawals have not been increased since 1992. However, house prices have more than doubled in the 15 years, with the average resale price for Canada rising by 104%.

The table on the next page makes several calculations to illustrate the impacts on potential first-time home buyers.

- It begins by showing average resale prices for each of the provinces, in 1992 (the first year of the HBP) and in 2007.
- Then, since many first-time buyers will purchase homes priced below average, it shows prices that are 25% below average for both periods.
- Next, assuming that the buyers withdraw \$40,000 from their RRSP to be used as down-payments, it calculates the balance that needs to be financed (via other sources of down payments or by mortgages).

This analysis finds that the amounts of finance required have increased sharply, more than doubling in all of the provinces. For all of Canada, in this scenario, the amount of other finance required increases by 161%, which is even larger than the growth rate for house values (104%). This larger rise for the amount of finance required results from the lack of increase for the withdrawal limits.

The consequence is that the Home Buyers' Plan is becoming less effective as a means to support Canadians in their aspirations for home ownership.

⁴ The withdrawals are to be repaid in installments over a 15 year period. For any year in which repayments are not made, the amounts become taxable income.

**Table 4,
Average Resale House Prices by Province, 1992 and 2007,
and Implications for HBP Withdrawals**

Province	Average Resale Price		Prices 25% Below Average		Balance to Finance After \$40,000 HBP Withdrawal		
	1992	2007 (9 months)	1992	2007 (9 months)	1992	2007 (9 months)	% Change
Newfoundland and Labrador	\$91,590	\$148,035	\$68,693	\$111,026	\$28,693	\$71,026	148%
Prince Edward Island	\$75,570	\$131,896	\$56,678	\$98,922	\$16,678	\$58,922	253%
Nova Scotia	\$87,685	\$182,741	\$65,764	\$137,056	\$25,764	\$97,056	277%
New Brunswick	\$82,478	\$137,527	\$61,859	\$103,145	\$21,859	\$63,145	189%
Quebec	\$102,311	\$205,955	\$76,733	\$154,466	\$36,733	\$114,466	212%
Ontario	\$161,187	\$296,049	\$120,890	\$222,037	\$80,890	\$182,037	125%
Manitoba	\$80,686	\$168,421	\$60,515	\$126,316	\$20,515	\$86,316	321%
Saskatchewan	\$68,406	\$169,926	\$51,305	\$127,445	\$11,305	\$87,445	674%
Alberta	\$113,558	\$356,611	\$85,169	\$267,458	\$45,169	\$227,458	404%
British Columbia	\$189,999	\$435,892	\$142,499	\$326,919	\$102,499	\$286,919	180%
Canada	\$149,850	\$305,495	\$112,388	\$229,121	\$72,388	\$189,121	161%

Source: estimates by Will Dunning Inc using data from the Canadian Real Estate Association.

Recommendation

It is recommended that the withdrawal limit for the Home Buyers' Plan be updated to reflect increases in the New House Price Index (for Canada) since 1992. For 2007, the limit would be increased by 40.7%, to reflect the change in the NHPI during 1992 to 2006. This would put the limit (currently \$20,000) at about \$28,150.

Going forward, the withdrawal limit should be updated annually based on changes in the New House Price Index.

Land Transfer Taxes

Most of the provinces in Canada, and a few municipalities, levy Land Transfer Taxes (“LTT”). While these taxes are known by different names across Canada, the feature they have in common is that the taxes are paid by the purchasers of new and existing homes, at the time that changes in title are registered.

The LTT tax rates vary across the provinces. In some provinces, the taxes are nominal amounts. In several provinces, however, the taxes are based on sliding scales and for high-valued properties the cost can be quite substantial. This section profiles four provinces in which sliding scales are used, and illustrates that house price increases that have occurred over the past decade have caused amounts paid for LTT to rise very rapidly.

Average resale house prices for 1997 and for the first nine months of 2007 are used to calculate the amounts of LTT that would be payable in each period. Then, based on the total amounts of LTT, two calculations are made:

- Percentage increases in LTT per dwelling unit, in comparison to the increases in average house prices.
- Effective tax rates for LTT as a percentage of the average house price.

For each of the four provinces profiled below, during 1997 to 2007 LTT payable increased more rapidly than house prices. Rates of LTT payable on an average priced home, for the first nine months of 2007 versus all of 1997 are:

- Quebec – 136%, to \$1,810 per home.
- Ontario – 113%, to \$2,916.
- Manitoba – 358%, to \$1,268.
- British Columbia – 179%, to \$6,718.

These rates of increase are far in excess of:

- Growth in weekly wages for Canada (which increased by 23% over the same period).
- The overall inflation rate (23.2% over the period).

Recently, the City of Toronto has enacted its own land transfer tax. When combined with the existing provincial LTT, and applied to an average priced home, the total amount payable is estimated at \$8,337 (based on prices for the first nine months of 2007).

The amounts of taxes paid for land transfers, and the amounts by which they have increased during the past decade would fail to meet any definition of fairness.

- They are applied in a discriminatory manner, as they are levied only a small percentage of the population.
- A discriminatory tax can be justified if it compensates government or society at-large for costs that result from an activity. At this point, taxes levied on land transfers are

far in excess of any social or governmental “costs” that result from the activity of home buying, and therefore these discriminatory taxes are not justifiable.

In conclusion, these land transfer taxes and the extent to which they have increased are unfair and unjustifiable.

Quebec

In Quebec, LTT is paid according to the following schedule:

- 0.5% on the first \$50,000 of value.
- 1.0% on the amount from \$50,001 to \$250,000.
- 1.5% on the amount above \$250,000.

The table below calculates the amounts of LTT that would be paid on average priced resale homes in 1997 and 2007. It shows that the average resale price in Quebec more than doubled during the period (rising by 102%). The amount of LTT payable increased even more rapidly, rising by 136%, from \$767 in 1997 to \$1,810 in 2007, and the average tax rate rose from 0.75% in 1997 to 0.88% in 2007.

Table 5			
Quebec Land Transfer Taxes - 1997 and 2007			
	<i>1997</i>	<i>2007 (9 months)</i>	<i>% Change</i>
Average Resale Price	\$101,715	\$205,955	102%
Up to \$50,000 @ 0.5%	\$250	\$250	
\$50,000 to \$250,000 @ 1.0%	\$517	\$1,560	
\$250,000 and up @ 1.5%	\$0	\$0	
Total LTT	\$767	\$1,810	136%
Average Tax Rate	0.75%	0.88%	0.12 (1)
Source: estimates by Will Dunning, using data from the Canadian Real Estate Association.			
Note: (1) change in percentage points			

Ontario

The LTT schedule is:

- 0.5% on the first \$55,000 of value.
- 1.0% on the amount from \$55,001 to \$250,000.
- 1.5% on the amount from \$251,000 to \$400,000.
- 2.0% on amounts above \$400,000.

The table below calculates the amounts of LTT that would be paid on average priced resale homes in 1997 and 2007. The average resale price in Ontario increased by 80% during the period but the LTT payable rose even more (rising by 113%, from \$1,368 in 1997 to \$2,916 in 2007). The average LTT tax rate rose from 0.83% in 1997 to 0.98% in 2007.

	1997	2007 (9 months)	% Change
Average Resale Price	\$164,301	\$296,049	80%
Up to \$55,000 @ 0.5%	\$275	\$275	
\$55,000 to \$250,000 @ 1%	\$1,093	\$1,950	
\$250,000 to \$400,000 @ 1.5%	\$0	\$691	
\$400,000 and up @ 2.0%	\$0	\$0	
Total LTT	\$1,368	\$2,916	113%
Average Tax Rate	0.83%	0.98%	0.15 (1)
Source: estimates by Will Dunning, using data from the Canadian Real Estate Association.			
Note: (1) change in percentage points			

The City of Toronto has just approved its own land transfer tax, which takes effect on February 1, 2008. The schedule differs from the Ontario schedule:

- 0.5% on the first \$55,000 of value.
- 1.0% on the amount from \$55,001 to \$400,000.
- 2.0% on amounts above \$400,000.

The following table calculates amounts payable for an average priced resale home within the City of Toronto (based on \$406,871 for the first nine months of 2007). The City LTT amounts to \$3,862. When added to the provincial LTT of \$4,475, the total cost is \$8,337 and the combined tax rate exceeds 2%.

<i>Provincial LTT</i>		<i>City LTT</i>		<i>Total LTT</i>
Average Resale Price	\$406,871	Average Resale Price	\$406,871	\$406,871
Up to \$55,000 @ 0.5%	\$275	Up to \$55,000 @ 0.5%	\$275	\$550
\$55,000 to \$250,000 @ 1%	\$1,950	\$55,000 to \$400,000 @ 1%	\$3,450	\$5,400
\$250,000 to \$400,000 @ 1.5%	\$2,250			\$2,250
\$400,000 and up @ 2.0%	\$137	\$400,000 and up @ 2.0%	\$137	\$275
Total LTT	\$4,475	Total LTT	\$3,862	\$8,337
Average Tax Rate	1.10%		0.95%	2.05%
Source: estimates by Will Dunning Inc. using data from the Canadian Real Estate Association and the Toronto Real Estate Board				

Manitoba

The LTT schedule in Manitoba has resulted in a very sharp increase in taxes:

- No tax on the first \$30,000 of value.
- 0.5% on the amount from \$30,001 to \$90,000.
- 1.0% on the amount from \$90,001 to \$150,000.
- 1.5% on the amount from \$151,000 to \$200,000.

- 2.0% on amounts above \$200,000.

As can be seen in the table below, the amount of LTT payable on an average priced home has increased by 358%, versus the 97% house price rise. We can speculate that the amount payable in 1997 (\$277, or 0.32% of the property value) might have been a reasonable approximation of the cost of operating the land registry system and of registering transfers of titles. But, the amount for 2007 (\$1,268) is far in excess of any reasonable estimate of costs.

	1997	2007 (9 months)	% Change
Average Resale Price	\$85,404	\$168,421	97%
Up to \$30,000 @ nil	\$0	\$0	
\$30,000 to \$90,000 @ 0.5%	\$277	\$300	
\$90,000 to \$150,000 @ 1.0%	\$0	\$600	
\$150,000 and up @ 2.0%	\$0	\$368	
Total LTT	\$277	\$1,268	358%
Average Tax Rate	0.32%	0.75%	0.43 (1)
Source: estimates by Will Dunning Inc using data from the Canadian Real Estate Association.			
Note: (1) change in percentage points			

British Columbia

The LTT schedule in British Columbia is:

- 1.0% on the first \$200,000.
- 2.0% on amounts above \$200,000.

The amount of LTT payable on an average priced home has increased by 179%, versus the 98% house price rise. At \$6,718 for an average priced home (1.54% of value) the British Columbia LTT has become a substantial burden for home buyers.

	1997	2007 (9 months)	% Change
Average Resale Price	\$220,512	\$435,892	98%
Up to \$200,000 @ 1.0%	\$2,000	\$2,000	
\$200,000 and up @ 2.0%	\$410	\$4,718	
Total LTT	\$2,410	\$6,718	179%
Average Tax Rate	1.09%	1.54%	0.45 (1)
Source: estimates by Will Dunning Inc using data from the Canadian Real Estate Association.			
Note: (1) change in percentage points			

Recommendation

It is recommended that the provinces' various thresholds for Land Transfer Taxes be updated to reflect increases in the New House Price Index that have occurred since the dates of inception of those various thresholds. Calculations should be based on the NHPI for the respective provinces.

Going forward, the thresholds should be updated annually based on changes in the New House Price Index.