

Property Transfer Tax

PRESENTATION TO THE MEMBERS OF THE LEGISLATIVE ASSEMBLY

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*British Columbia
Real Estate Association*

MISSION STATEMENT

**The British Columbia Real Estate Association
represents the interests of the real estate boards
and their licensees on all provincial issues.**



EXECUTIVE SUMMARY

British Columbia Real Estate Association (BCREA) believes homebuyers in BC face a home-buying crisis. The highest house prices in Canada mean that many potential homebuyers are denied the opportunity to enter the housing market.

In a time of record low mortgage rates and high levels of new construction of affordable homes in BC, there are approximately 10,300 families and unattached individuals who cannot afford average-priced residential property, simply because of the Property Transfer Tax (PTT).¹

Removal of the PTT would mean:

- 6,400 additional Multiple Listing Service® (MLS®) residential sales;
- 2,600 additional housing starts;
- 20,640 person years of employment in the sales and construction industries;
- \$1,274 million increase in Gross Domestic Product (GDP); and
- \$357 million increase in government revenues.

Now is the time to reconsider the PTT. BCREA believes the elimination of this tax would result in a stimulated housing economy and growth in government revenue.

Recommendation

Eliminate the Property Transfer Tax (PTT).

Proposed options include:

- removing the tax altogether in the next budget cycle to dramatically stimulate the economy;
- offering tax credits, to be recovered by buyers over a one or two year period after the purchase of a property, to smooth the revenue impact on the government;
- declaring a PTT moratorium for one or two years, at which time an ongoing assessment can be made with a view to eliminate the tax altogether; and
- planning the elimination of the PTT over the next two budget cycles. This will allow the government to replace the PTT revenue through increased tax revenue from a more stimulated economy.

¹ See Appendix B "Benefits of Eliminating or Reducing the Property Transfer Tax" (2000).



BACKGROUND

The Property Transfer Tax (PTT) was implemented by the government in 1988 as a tax on all real property. The growth of the economy, and in-migration to British Columbia over the first five to seven years of this tax, brought in significant revenue to the government. The effect of this tax was muted during the economic growth of those years, when the marketplace was more tolerant of such negative taxes and the value of property rose more than the cost of the tax.

ISSUE

In the last few years of negative economic growth in BC, the PTT has become an obvious restraint on property development and purchase. The PTT is particularly harsh on lower income individuals and families who find it difficult to save for a home.

Although real estate prices have leveled off, or been slightly reduced in most regions of the province, BC still has the highest prices for residential property in Canada. At the same time, the government's own statistics show that British Columbians are taking home less income per capita than ten years ago, because of increased tax burdens and economic malaise. Government revenues from this source have dropped accordingly.

More telling than economic analysis and statistics is the burden the PTT places on the citizens of British Columbia. For many people, the PTT destroys the incentive to buy a home. For first-time and move-up buyers, the PTT is seen as a penalty against home ownership.

Appendix A of this brief details the real experiences of one REALTOR (a member of BCREA's Legislative Task Force) and her clients. Any one of BCREA's 13,000 members has similar client examples.

SOLUTION

BCREA asks the government to eliminate, or at least ease the burden of, the PTT as soon as possible. Proposed options include:

- removing the tax altogether in the next budget cycle to dramatically stimulate the economy;
- offering tax credits, to be recovered by buyers over a one or two year period after the purchase of a property, to smooth the revenue impact on the government;



- declaring a PTT moratorium for one or two years, at which time an ongoing assessment can be made with a view to eliminate the tax altogether; and
- planning the elimination of the PTT over the next two budget cycles. This will allow the government to replace the PTT revenue through increased tax revenue from a more stimulated economy.

BENEFITS OF ELIMINATION

- **Increased MLS® residential sales**

BCREA estimates that eliminating the PTT would result in an additional 6,400 MLS® residential sales, generating:

- \$189 million of additional direct and indirect expenditures (GDP); and
- 1,240 additional, full- or part-time, person years of employment.

The increase in GDP from housing sales would produce an additional \$53 million in provincial government revenues.

- **Increased housing starts**

Elimination of the PTT would result in an estimated additional 2,600 housing starts, generating:

- \$647 million in new residential investment;
- 19,400 person years of employment generated from increased residential investments; and
- \$1,085 million in additional GDP.

The increase in GDP from housing starts would produce an additional \$304 million in provincial government revenues.

In addition to these significant benefits, there are spin-off effects, including:

- more employment income in the marketplace;
- sales tax revenue on furniture, appliances, and other household products; and
- an increased demand for housing-related services.

Appendix B offers a complete economic analysis of the benefits of eliminating or reducing the PTT.



CONCLUSION

BCREA has asked the provincial government to reduce this tax several times in recent years. Government has responded with limited exemptions for first-time buyers, of which BCREA and the real estate industry are appreciative.

BCREA understands that government must balance its revenue sources and make difficult choices. However, with the economy and consumer confidence in BC at such low ebb, now is the time to act decisively on the PTT.

BCREA looks forward to further discussions on this matter

Appendix A

Real Life Studies

The impact of the PTT from a REALTOR'S perspective

First-Time Buyers

The PTT adversely affects first-time buyers. To qualify for a PTT exemption, first-time buyers in BC cannot have owned property anywhere at anytime. The federal government, on the other hand, defines a first-time buyer as not having owned property in only the previous five years. First-time buyers must also take out a mortgage for at least one year, and they cannot reduce the principal anytime during that period.

- **Case 1**

A Master's student, who inherited \$80,000 from her grandmother, bought a studio apartment without a mortgage. She failed to qualify for the PTT exemption because she had more than 30 per cent equity in the purchase.

- **Case 2**

A woman in her early thirties, on disability, bought a small townhome. Her parents took out a second mortgage on their home to provide the down payment, enabling their daughter to reduce the mortgage to an amount she could qualify to carry. Again, a greater than 30 per cent equity disqualified my client from exemption.

- **Case 3**

A young couple, married for three years, has been living in the woman's grandmother's basement, rent-free. They have each been working two jobs, saving the down payment for a home in which to start their family. They need to stay close to the ailing grandmother, and are concerned about the costs of starting a family. Their best option is to purchase a home with a secondary suite they can rent out, and later have the grandmother live in. The purchase price of such a home is \$349,500. They have saved \$80,000, but \$5,080 of that has to go towards the PTT, because the purchase price exceeds \$275,000.

- **Case 4**

A divorced mother of two has an opportunity to buy a modest townhome through the Whistler Housing Authority Program. She had been renting a small two-bedroom basement suite for the last six years. Because she was on title in the matrimonial home, for which she received no equity, she is faced with an additional \$2,126 for the PTT on the townhome. On the purchase price of \$206,303, including GST, her five per cent down payment is \$10,315. The PTT represents 20 per cent of her down payment.

Move-Up Buyers

When the spread between sell price and purchase price becomes too narrow, the sensibility of change diminishes greatly. The future financial benefits of real estate investments are lost, while the quality of life is reduced.

- **Case 1**

A young couple bought a modest two-bedroom apartment three years ago. They used their RRSPs, with a five per cent down payment, and narrowly qualified to carry a three-year mortgage. Since that time, they have had one child and are expecting another. They accept the fact that they will likely have to move further away to afford more space.

They bought their apartment for \$161,100; its current market value is \$154,000, and the cost of selling it would be \$8,935. This leaves an equity balance of \$145,065, before their mortgage payout of approximately \$148,000. The original down payment of \$8,055 is still being paid out at \$537 per year.

Only with help from their families can the couple consider a modest three-bedroom attached home in the outskirts of Vancouver (still within an hour commute to both their jobs). The proposed purchase price of the home is \$160,000. The couple needs \$16,000 for the ten per cent down payment and \$1,600 for the PTT. In addition, appraisal, legal and inspection fees total \$1,200. With a \$3,600 Canada Mortgage and Housing Corporation fee for a high-ratio mortgage (\$144,000), the couple's new mortgage would be \$147,600.

The couple will probably not be able to afford the additional space they need. This means lost revenue for the government and the economy.

- **Case 2**

A couple bought their home seven years ago for \$275,000. Now, they need to purchase a home with a separate living space, to be occupied by their grown son during college and, in two or three years' time, by a retiring sister.

They sold their home for \$354,000. The cost of selling the home was \$14,285, leaving an equity balance of \$339,715. The type of home this family requires costs about \$450,000 (with a PTT of \$7,000), which means increased mortgage payments.

This couple, in their early 50's, is trying to plan for their retirement years while still helping their son complete his education. Rent payments from the separate living space would help augment their income before retirement and establish future financial security. Unfortunately, the difference between the selling price of their existing home and the purchase price of their new home isn't big enough to make their goals feasible.

Appendix B

Benefits of Eliminating or Reducing the Property Transfer Tax

Increase In Homebuyer Demand

The PTT applies to all transactions requiring land registration in BC, with various conditional exemptions including first-time buyers, related individuals, and subdivisions. The PTT rate is one per cent of the first \$200,000 of fair market value for the transferred property, and two per cent of the balance. The tax currently raises about \$216 million per year in revenue for the provincial government.

One way of measuring how much the PTT reduces residential property sales is to estimate the number of households that could afford to buy an average priced residence, both with and without the PTT. The first step in measuring this is to estimate the number of BC households who could afford to buy a home, including the cost of the PTT. The average price of a residential property in BC is currently around \$215,300.² The applicable PTT for most buyers would be about \$2,300, which raises the price of the average purchase to around \$217,600. (In the Lower Mainland, where the average-priced residence is approximately \$300,170, the applicable PTT would be about \$4,003, for a total average price of \$304,173.)

Assuming the typical BC buyer would finance 70 per cent of the \$217,600 price with a conventional, three year term mortgage, the payments for principal, interest, property tax, and heating would currently total about \$1,400 per month.³ Assuming the typical buyer could use up to 32 per cent of their gross income to cover these monthly payments, they would require an annual income of at least \$53,000 to purchase the average priced residential property, including the PTT. There are currently around 535,300 families and unattached individuals in BC with annual incomes of at least \$53,000.⁴

If the PTT were eliminated, the average purchase price for a residential property in BC would be around \$215,300 (instead of \$217,600 with the PTT). The typical buyer would require a minimum annual income of about \$52,400 to purchase the average priced residential property (instead of \$53,000 with the PTT).⁵ There are currently around 545,600 families and unattached individuals in BC with annual incomes of at least \$52,400.

Without the PTT, 545,600 households could afford to buy the average-priced residence. With the PTT, only 535,300 households can afford to buy the average-priced residence. There are approximately 10,300 families and unattached individuals in BC who cannot

² "Residential MLS® Report: 1999, Average Price, British Columbia", Canadian Real Estate Association, January 25, 2000.

³ Mortgage rate of 8.05 per cent, compounded semi-annually, amortized over 25 years; Property tax rate of one per cent of average residential price; Heating cost of \$50 per month.

⁴ "Income Distributions by Size in Canada, 1997", Table 34, Statistics Canada – Catalogue 13-207-XPB; "Annual Demographic Statistics, 1998", Table 1.1, Statistics Canada – Catalogue 91-213.

⁵ Assuming the same loan-to-value ratio, gross-debt-service ratio, mortgage rate and terms, property tax rate and heating cost as before.

afford the average priced residential property simply because of the PTT. This results in fewer sales of residential properties and less construction of new housing units.

Increase In Housing Starts

It has been established that eliminating the PTT would lead to an increase in homebuyer demand from around 10,300 families and unattached individuals. There is slightly less than one unit of housing stock per family and unattached individual in BC, so the increased demand for housing from eliminating the PTT equates to demand for around 9,000 units of housing.⁶ Some of this demand would go to buy existing housing units, while some would go to buy new housing units. The number of new and existing home sales over the past several years indicates how much homebuyer demand goes to each of the new and existing housing markets.

Housing starts in BC have averaged 26,400 units per year since 1994, while MLS® residential sales (which mostly cover existing home sales) have averaged 64,100 units per year since 1994.⁷ The historical evidence suggests that the demand from homebuyers for housing units are weighted about 29 per cent toward new housing and 71 per cent toward existing housing. Eliminating the PTT, and thereby increasing the demand from homebuyers for 9,000 units of housing, would result in about 2,600 additional housing starts and 6,400 additional MLS® residential sales.

The economic benefits that arise from existing home sales and new housing construction are substantial. Each purchase of a home might involve REALTORS, bankers, mortgage brokers, life and property insurers, movers, renovators, building product suppliers, home furnishing and appliance suppliers, and other producers. The construction of each new home also involves a multitude of other producers, from land developers, builders and construction workers, to local government employees and utility company workers.

In addition to the economic benefits generated by those directly involved in the construction or sale of a home, there are so-called spin-off benefits. These benefits refer to the economic output that results from each of the producers who are directly involved spending their earnings. Indirect benefits multiply the output generated from home construction and sales, as each directly generated dollar of earnings is spent and re-spent many times. However, if housing units are not sold or built, because, for instance, the provincial government's PTT squeezes homebuyers out of these markets, the multitude of direct and indirect economic benefits are lost.

Economic Impact Of Increased MLS® Sales

Each MLS® residential transaction is currently estimated to generate about \$18,400 of additional direct expenditures, excluding construction expenditures and GST.⁸ As mentioned above, these direct expenditures are on marketing and financial services,

⁶Total Net Housing Stock, Singles and Multiples, British Columbia, Units", Statistics Canada, CANSIM series D845831; "Income Distributions by Size in Canada, 1997", Table 34, Statistics Canada – Catalogue 13-207-XPB.

⁷"CMHC Housing Outlook: National Edition", Fourth Quarter, 1999.

⁸"Economic Impacts of Housing Sales and Purchases", series P110000.

general and durable household goods, renovations, and moving. Each MLS® residential transaction is estimated to generate 0.121 jobs directly, 0.073 jobs indirectly, and additional jobs through subsequent spin-off impacts. “Jobs” refers to workers employed for a full year, including both full and part time, at ratios appropriate for each industry. Each MLS® residential transaction is currently estimated to generate around \$11,100 of additional indirect expenditures.⁹

Total direct and indirect expenditures generated from each MLS® residential sale are currently estimated at \$29,500. Total jobs generated from each MLS® home sale are estimated at 0.194 full or part time person-years. Previously, it was estimated that eliminating the PTT would result in an additional 6,400 MLS® residential sales, generating about \$189 million of additional expenditures (GDP) and about 1,240 additional, full- or part-time, person years of employment.

How much revenue would an additional 6,400 MLS® residential sales generate for the provincial government? Since the economic benefits from MLS® sales are widely distributed throughout the economy through direct and indirect expenditures, a simple way to estimate additional government revenues is to use the historic ratio of total provincial revenue to provincial GDP. Over the latest five years, provincial government revenues averaged around 28 per cent of provincial GDP.¹⁰ The additional \$189 million of estimated GDP, generated by increased MLS® residential sales, would generate around \$53 million in provincial government revenues.

Economic Impact Of Increased Housing Starts

New housing units tend to be somewhat more expensive than existing units, including both single and multi-family units. The average new home price in BC is currently estimated to be around \$249,000, or about 15.7 per cent higher than the average existing home price of \$215,300.¹¹ Previously, it was estimated that eliminating the PTT would result in an additional 2,600 housing starts. Eliminating the PTT would generate around \$647 million in new residential investment in BC.

Each \$1 million of new residential investment is estimated to create about 30 person years of employment. Of these 30 person years, only 5.4 are created directly on-site. Much of the employment from new home construction is created indirectly off-site (18.3 person-years) or induced through income spending (6.2 person years).¹² Eliminating the PTT would generate around \$647 million in new residential investment in BC, creating about 19,400 person years of employment.

In terms of GDP, each \$1 million in new residential investment is currently estimated to create \$1.677 million of GDP. These gains in GDP result from the multiple effects of direct

⁹ “Economic Impacts of Housing Sales and Purchases”, Clayton Research Associates Limited, October 1994; Using the ratio of indirect to direct jobs to estimate indirect expenditures from direct expenditures.

¹⁰ “British Columbia 1999 Budget Reports”, Ministry of Finance and Corporate Relations, Joy K. MacPhail, Minister.

¹¹ “Consumer Profile: Buyers of New Homes”, CMHC Clayton Research Associates Limited, October 1994; “Consumer Price Index, British Columbia, All Items”, Statistics Canada, CANSIM Market Analysis Centre, 1996; “Residential MLS® Report: 1999, Average Price, British Columbia”, Canadian Real Estate Association, January 25, 2000.

¹² “Economic Impacts of Residential Construction”, DRI Canada, Toronto, December 1993.

and indirect spending, and mostly include wages and profits.¹³ Eliminating the PTT would generate around \$647 million in new residential investment in BC, creating about \$1,085 million in GDP.

How much revenue would an additional 2,600 housing starts generate for the provincial government? Since the economic benefits from new residential investment are widely distributed throughout the economy, the historic ratio of total provincial revenue to provincial GDP is used to estimate gains in government revenue. With provincial government revenues averaging around 28 per cent of provincial GDP, the additional \$1,085 million in GDP, generated by increased residential investment, would generate around \$304 million in provincial government revenues.

For further information, please contact

Dan Bennett, President
e-mail: dbennett@istar.ca

or

Robert Laing, Director of Government Relations
e-mail: robertl@bcrea.bc.ca

British Columbia Real Estate Association
209-1155 West Pender Street
Vancouver BC, V6E 2P4
phone: (604) 683-7702; fax: (604) 683-8601
website: www.bcrea.bc.ca

¹³ "Economic Impacts of Residential Construction", DRI Canada, Toronto, December 1993; "Consumer Price Index, British Columbia, All Items", Statistics Canada, CANSIM series P110000.