

# **The Benefits of Eliminating or Reducing the Property Transfer Tax**

**Pre-Budget Submission to the Select Standing  
Committee on Finances and Government Service**  
November 22, 2000



***British Columbia  
Real Estate Association***

### **Who Are We?**

BCREA represents the interests of 12,000 REALTORS in 12 real estate boards throughout the province on all provincial issues.

# Executive Summary

## Crisis

The British Columbia Real Estate Association (BCREA) believes there is a homebuying crisis in British Columbia. BC continues to have some of the highest house prices in Canada. In a time of record-low mortgage rates and the availability of a significant supply of homes in BC, the Property Transfer Tax (PTT) prevents approximately 10,300 families and individuals from buying an average-priced residential property.<sup>1</sup>

Real estate is a vital sector of the economy that creates jobs through the effect of spin-off multipliers. An increase in housing sales, due to the elimination of, or reduction in, the PTT will certainly help the economy.

## Recommendation

BCREA recommends eliminating or reducing the Property Transfer Tax (PTT). The government can achieve this goal by:

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

## Benefits of Elimination

Currently, the PTT brings in annual tax revenue of approximately \$216 million to the provincial government. BCREA believes elimination of the PTT will result in a stimulated housing economy, and growth in government revenue of approximately \$357 million.

In addition to increased provincial revenue, elimination of the PTT will:

- cause Multiple Listing Service® (MLS) sales and housing starts to increase by 9,000 units;
- create 20,640 person years of employment;
- increase GDP by \$1,274 million.

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<sup>1</sup> All calculations are detailed in the body of this report or the endnotes following the submission.

# Background

British Columbia has the second highest level of property transfer taxation in Canada. Alberta, BC’s main economic competitor, as well as Saskatchewan and rural Nova Scotia do not charge Property Transfer Tax (PTT).<sup>1</sup> In BC, the PTT raises about \$216 million in annual revenue for the provincial government. However the high PTT encourages buyers to purchase real estate elsewhere in Canada.

**Property Transfer Tax Payable Across Canada  
(1999)**

	<b>\$150,000</b>	<b>\$200,000*</b>	<b>\$250,000</b>	<b>\$300,000°</b>
<b>BC</b>	\$1,500	\$2,000	\$3,000	\$4,000
<b>Alberta</b>	\$0	\$0	\$0	\$0
<b>Saskatchewan</b>	\$0	\$0	\$0	\$0
<b>Manitoba</b>	\$900	\$1,650	\$2,400	\$3,150
<b>Ontario</b>	\$1,225	\$1,725	\$2,475	\$3,225
<b>Quebec</b>	\$1,250	\$1,750	\$2,250	\$3,000
<b>Metro Halifax</b>	\$2,250	\$3,000	\$3,750	\$4,500
<b>Rural NS</b>	\$0	\$0	\$0	\$0

\*The average price of a residence in BC is \$215,300.<sup>2</sup>

°The average price of a residence in the Lower Mainland is \$300,170.<sup>3</sup>

# Recommendation

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## Economic Benefits

An average home in BC sells for \$215,300, plus \$2,300 PTT, for a total of \$217,600. A typical homebuyer finances 70 per cent of this purchase with a three-year-term mortgage. Monthly mortgage payments, including principal, interest, property tax and heating are approximately \$1,400.<sup>4</sup>

If a buyer used 32 per cent of his or her gross income to cover these monthly payments, annual income of at least \$53,000 is required to purchase the property. There are currently 535,300 families in BC with annual incomes of \$53,000 or greater.<sup>5</sup>

Elimination of the PTT will make the same property available to a person with a minimum annual income of \$52,400.<sup>6</sup> There are approximately 545,600 families and unattached individuals in BC with annual incomes of at least \$52,400. Thus, the PTT is preventing 10,300 families and unattached individuals from purchasing an average priced property. This roadblock results in fewer sales and less construction of new housing.

## Increased Homebuyer Demand

There is slightly less than one unit of housing stock per family and unattached individual in BC. This means that the increased demand in housing from eliminating the PTT equates to demand for approximately 9,000 units of housing.<sup>7</sup> The amount of this demand that goes to new housing is determined by reviewing the history of new and existing home sales over the last few years.

Since 1994, housing starts in BC have averaged 26,400 units, and Multiple Listing Service® (MLS®) residential sales of existing homes have averaged 64,100 units.<sup>8</sup> Historical evidence suggests that 29 per cent of homebuyers want new housing and 71 per cent choose existing housing. This means that the demand for 9,000 units of housing created through elimination of the PTT will result in 2,600 additional housing starts and 6,400 additional MLS® residential sales.

## Increased MLS® Residential Sales

Each MLS® residential transaction generates:

- approximately \$18,400 of additional **direct expenditures**, exclusive of construction expenditures and GST.<sup>9</sup> These direct expenses reflect marketing and financial services, general and durable household goods, renovations, and moving expenses.
- 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.
- approximately \$11,100 of additional **indirect expenditures**.<sup>10</sup>

This means that total direct and indirect expenditures generated from each MLS® residential sale are approximately \$29,500. Total jobs generated from each MLS® home sale are estimated at 0.194 full or part time person-years.

As mentioned earlier, the elimination of the PTT will result in an additional 6,400 MLS® residential sales, \$189 million in additional expenditure (GDP) and 1,240 additional, full or part-time person years of employment. The additional \$189 million of GDP will generate \$53 million in provincial government revenues.<sup>11</sup>

## Increased Housing Starts

BCREA estimates that the elimination of the PTT will create an additional 2,600 housing starts in BC that, in turn, will generate approximately \$304 million in provincial government revenues on the \$647 million in new residential investment.<sup>12</sup>

Each \$1 million of new residential investment is estimated to create about 30 person years of employment. Therefore, \$647 million in new residential investment will, in turn, create 19,400 person years of employment.<sup>13</sup>

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 and indirect spending, mostly by way of wages and profits. Therefore, \$647 million in new residential investment will, in turn, create \$1,085 million in GDP.<sup>14</sup>

Finally, the additional 2,600 housing starts will generate approximately \$304 million in provincial government revenues. This figure is derived by using the historic ratio of total provincial revenue to provincial GDP to calculate the potential gain in government revenues. Provincial government revenues average around 28% of provincial GDP. Therefore, 28% of the additional \$1,085 million in GDP generated by increased residential investment is approximately \$304 million.

## Total Direct Economic Benefits

BCREA believes eliminating the PTT will increase homebuyer demand by lowering the cost of residential investment, resulting in an estimated 6,400 additional MLS<sup>®</sup> residential sales and 2,600 additional housing starts. This increase in residential investment will generate an estimated \$357 million in BC government revenue, 20,640 person years of employment, and \$1,274 million in GDP. These benefits are summarized below.

### The Benefits of Eliminating the PTT

	Home Buyer Demand (Units)	BC Government Revenue	Person Years of Employment	GDP
<b>MLS<sup>®</sup> Sales</b>	6,400	\$53 M	1,240	\$189 M
<b>Housing Starts</b>	2,600	\$304 M	19,400	\$1,085 M
<b>Total Benefits</b>	<b>9,000</b>	<b>\$357 Million</b>	<b>20,640</b>	<b>\$1,274 Million</b>

## Indirect Economic Benefits

The economic benefits that arise from existing home sales and new housing construction are substantial. When a new home is constructed or an existing home sold, the following British Columbians are just a few of the many beneficiaries of this activity:

- Engineers for design work
- Crews to clear the land
- Road builders and surveyors
- Sewer and water pipe contractors
- Hydro and telephone companies
- Sign companies that prepare signage
- Municipal workers who provide permits
- Land registry staff
- Forestry industry that provides building products
- Building products suppliers
- Electricians, plumbers, painters, drywall workers
- Roofers, construction workers and renovators
- Nurseries for landscaping
- Retail stores that supply furniture and appliances
- REALTORS
- Bankers and mortgage brokers
- Life and property insurers
- Movers

This list is not exhaustive. The Provincial Sales Tax, and Income Tax collected directly from the sale of one new \$200,000 house far exceeds the \$2000 PTT that is collected. In discouraging real estate activity, the PTT causes the government to lose revenues. Elimination of the PTT will create a net increase in tax revenue for the government.

In addition to the economic benefits generated by those directly involved in the construction or sale of a home, there are spin-off benefits. These benefits represent the economic output that results from each of the producers who are directly involved spending their earnings. Spin-off benefits multiply the output generated from home construction and sales as each directly generated dollar of earnings is spent and re-spent many times.

## Conclusion

Elimination, or at least a reduction of the PTT, will benefit BC's public and private sectors. Housing will be affordable for more British Columbians, resulting in greater demand, which means more sales and housing starts. In turn, the government will realize an estimated \$357 million in revenue, 20,640 person years of employment, and \$1,274 million in GDP.

## Endnotes

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<sup>1</sup> British Columbia charges PTT at the rate of 1% on the first \$200,000 and 2% on the balance. Alberta and Saskatchewan do not charge PTT. Manitoba charges 0% on the first \$30,000, .5% on \$30,000-90,000, 1% on \$90,000-150,000, and 1.5% on the balance. Ontario charges .5% on the first \$55,000, 1% on \$55,000 –250,000, and 1.5% on the balance. Quebec charges .5% on the first \$50,000, 1% on \$50,000-250,000, and 1.5% on the balance. Halifax Metro charges 1.5% on the total value. Outside Halifax, PTT decisions are in the hands of the local municipalities.

<sup>2</sup> “Residential MLS<sup>®</sup> Report: 1999, Average Price, British Columbia”, Canadian Real Estate Association, January 2000.

<sup>3</sup> Ibid.

<sup>4</sup> Mortgage rate of 8.05%, compounded semi-annually, amortized over 25 years; property tax rate of 1% of average residential price; heating cost of \$50 monthly.

<sup>5</sup> “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.

<sup>6</sup> Assuming the same loan-to-value ration, gross-debt service ratio, mortgage rate and terms, property tax rate and heating costs as mentioned earlier.

<sup>7</sup> “Total 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.

<sup>8</sup> “CMHC Housing Outlook: National Edition”, Fourth Quarter, 1999.

<sup>9</sup> “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.

<sup>10</sup> Ibid.

<sup>11</sup> Since the economic benefits from MLS<sup>®</sup> residential 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% of provincial GDP. Therefore, the additional \$189 million of estimated GDP, generated by MLS<sup>®</sup> residential sales, would generate \$53 million in provincial government revenues. See: “British Columbia 1999 Budget Reports”, Ministry of Finance and Corporate Relations, Joy K. MacPhail, Minister.

<sup>12</sup> New housing units tend to be more expensive than existing units. The average new home price in BC is \$249,000 or about 15.7% higher than the average existing home price. Elimination of the PTT will result in 2,600 housing starts. Therefore, \$249,000 X 2,600 = \$647 million in new residential investment. See: “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<sup>®</sup> Report: 1999, Average Price, British Columbia”, Canadian Real Estate Association, January 25, 2000.

<sup>13</sup> Of these 30 person years, 5.4 are created directly on-site, 18.3 created indirectly off-site, and 6.2 through income spending. See: “Economic Impacts of Residential Construction”, DRI Canada, Toronto, December 1993.

<sup>14</sup> “Economic Impacts of Residential Construction”, DRI Canada, Toronto, December 1993; “Consumer Price Index, British Columbia, All Items”, Statistics Canada, CANSIM series P110000.

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