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'Miller bite' hangover probably won't drive buyers out of the city

Some industry stakeholders are predicting there will be a rush to buy houses in the 905 area code when the new Toronto land transfer tax goes into effect on Feb. 1, 2008.

As I see it, buying a home outside Toronto just to escape the new city land transfer tax doesn't make sense. Here's why:

Let's take a typical home or condominium unit selling at \$300,000. The current provincial transfer tax is \$2,975 and after Feb. 1, the city transfer tax will be an additional \$2,725. Buying outside Toronto will result in an immediate tax saving of \$2,725, but every year afterward, the municipal taxes will be substantially higher eventually wiping out the savings in transfer tax.

Based on a residential property assessed at \$300,000 the municipal taxes for 2007 are:

- Toronto: \$2,558.53
- Mississauga: \$3,007.56
- Oakville: \$3,022.01
- Markham: \$3,061.25
- Aurora: \$3,356.73
- Newmarket: \$3,380.66
- Brampton: \$3,586.267
- Pickering: \$4,057.87
- Ajax: \$4,127.80
- Whitby: \$4,144.08
- Oshawa: \$5,127.71

Based on these figures, Toronto's property taxes are artificially low compared with neighbouring municipalities, and the city's budget deficit is being foisted onto Toronto property buyers but that's another story.

The new city tax for one- and two-family residences is not an exact mirror of the provincial land transfer tax. Based on the purchase price, the city tax is calculated at these rates:

- On the first \$55,000: 0.5 per cent
- Between \$55,000 and \$400,000: 1 per cent
- Over \$400,000: 2 per cent

On all other property, the transfer tax on a sale price over \$400,000 up to \$40 million is 1.5 per cent.

In contrast, the existing provincial land transfer tax on residences is calculated at:

- 0.5 per cent on the first \$55,000 of the sale price
- 1 per cent on the excess up to \$250,000
- 1.5 per cent on the excess up to \$400,000
- 2 per cent on the excess over \$400,000

Depending on the timing of the purchase agreement, some buyers will be exempt from the new city tax. Buyers will be eligible for a full rebate of the municipal transfer tax where the agreement is entered into before Jan. 1, even if closing occurs after Jan. 31.

As a result, anyone who buys a Toronto home or condominium before New Year's Day, even if closing doesn't take place for several years, will not have to pay the city transfer tax.

First-time homebuyers are entitled to a rebate on the purchase of new and resale homes priced at up to \$400,000. If the city applies the same rules as the province uses, then the first \$3,725 in tax for first-time homebuyers will be forgiven even if the price exceeds \$400,000. (The provincial rebate of \$2,000 only applies to first-time buyers of newly built residences.)

No city transfer tax is payable for agreements entered into after Dec. 31 if closing takes place before Feb. 1. The city tax is payable, however, if the agreement is signed after Dec. 31 and closing occurs after Jan. 31.

Tax is payable through the Teranet electronic land registration system upon registration of the deeds.

While I'm on the subject of the new city tax, it seems to me that the formal name, Municipal Land Transfer Tax, is too much of a mouthful for everyday use, so I've been looking for a nice shorter version.

Back in 1958, the Ontario government under Premier Leslie Frost introduced the province's first retail sales tax, initially pegged at 3 per cent. It was nicknamed the "Frost bite," and was called by that name for many years afterward.

Unless anyone can come up with a better name for the municipal land transfer tax, I am pleased to announce that its new nickname is "Miller Bite," (inspired by a malt-based beverage known as Miller Lite).

This way we won't forget the mayor who is responsible for the misguided attempt to saddle the city's budget shortfall which belongs to all of us onto the backs of homebuyers.

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For a handy land transfer tax calculator, see <http://aaron.ca/land-transfer-tax.cfm>

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