PROPERTY TRANSFER TAX REFORM: AFFORDABLE HOUSING IS GOOD FOR THE ECONOMY (2014)

Land transfer tax has become a powerful source of income for the province of British Columbia. In 2013/14 property transfer tax is expected to generate approximately $740 million.

Critics of the tax argue that increasing real estate values have distorted the original purpose of the Property Transfer Tax Act. However, making adjustments to the land transfer tax system and maintaining critically important tax dollars at the same time has presented a long-standing conundrum for legislators.

The Kamloops Chamber of Commerce applauds the recent 2014 provincial budget initiative to raise the threshold of properties that qualify for the grant thus reducing the cost of Property Transfer Tax (PTT) for first time home buyers (FTHB) in British Columbia. This is an important step forward on the path to land transfer tax reform that homebuyers as well as community and business leaders have been seeking.[1] A Vibrant real estate market is good for the entire economy. The April 2013 Altus Group Economic Consulting report to the Canadian Real Estate Association estimates that there is an additional $64,500 in ancillary spending (purchases other than land and house) per real estate transaction in British Columbia.[2] They further estimate that in the period from 2010 to 2012 the additional per real estate transaction spending resulted in 176,420 jobs Canada wide.

Property Tax Background

Introduced in 1987, when the average price of a home in Vancouver was just over $100,000, the Property Transfer Tax Act was designed to place most of the land transfer tax burden on buyers of luxury homes. Now, almost three decades later, home prices have skyrocketed. Currently in the Greater Vancouver area, 96% of the property purchased is above the $200,000 level.

BC's land transfer has the dubious distinction of being the highest land transfer tax in the country and the upper end of the tax that was originally intended to affect only 5 percent of buyers now affects virtually everyone who purchases a home. The transfer tax on a modest $350,000 home in Alberta (cash purchase) is $120. The same property in Saskatchewan would generate $1,050 in tax and in Ontario the tax would be $3,725.00. British Columbia Property Transfer tax would be $5,000, a significant increase in cost to the purchaser.

The Primary Residence Grant

Land transfer tax reform could be further advanced through an initiative that would offer qualified purchasers a Primary Residence Grant. Currently Property Transfer Tax is calculated at 1% on the $100,000 of property value and 2% on the remainder. Increasing that threshold would go a long way to make the purchase of a Primary Residence more affordable.

---

[1] Letter to the BC Standing Committee on Finances and Government Services, British Columbia Real Estate Association, (BCREA) 20 September, 2013.

[2] Altus Group Economic Consulting, Economic Impacts of MLS® Home Sales and Purchases in Canada and the Provinces, 2013.

Primary Residence Grant qualifications would be similar to those for First Time Home Buyers, requiring applicants to be Canadian citizens or permanent residents and would be available to purchasers moving to British Columbia from other areas of Canada increasing the appeal of relocating to British Columbia.

The existing PTT formula, 1% on the first $200,000 and 2% on the remaining purchase price of properties not intended to be the primary residence, would remain as is.

The current Property Transfer Tax Return would only require an additional declaration, similar to the First Time Homebuyers declaration, to determine the intended use of the property and the qualification of the purchaser.

No Tax Barrier Investment Haven

Politically stable, safe, secure and beautiful, British Columbia, especially Vancouver, with its no-foreign-tax-barriers-to-buy-or-sell, is an attractive location and investment haven for wealthy offshore investors.

BC does not track real estate buyers by foreign residency status and determining the exact amount of foreign ownership is difficult at this time. However, a reasonable measurement of that trend is found in a report done by the Landcor Data Group and published in 2011.

The Landcor Data Group found that in 2008 and 2010, between 46 and 74 percent of buyers of condos over $2 million and homes over $3 million were sold to persons identified by Landcor as Peoples' Republic of China investors. While the Chinese buyer group is significantly present, other foreign buyers from 90 different countries are also entering the Vancouver market according Landcor.[3]

Foreign ownership in large, international cities is happening around the world.

At the end of 2013, Britain introduced a 'stamp of duty' of up to 15 percent on purchases of more than 2 million pounds by foreign buyers made through corporations. And next year, Britain will introduce new capital gains tax on property owned by foreign property investors. [4]

Other cities such as Paris and New York already impose similar capital gains taxes that relate to an owner's residency status.

Since 2012, Hong Kong has required foreign investors and companies to pay a special 15 per cent tax also referred to as a 'stamp duty'. In fact, most countries tax foreign ownership in some way.[5] In Canada, the province of Prince Edward Island has special purchase rules and restrictions in place to prevent Americans from buying up beach front property.

---

[3] http://www.landcor.com/market/reports/Q1_2011_Residential_Sales_Summary_Final.pdf

[4] http://www.telegraph.co.uk/finance/newsbysector/constructionandproperty/10417422/Tax-on-foreign-property-owners-to-burst-Londons-bubble.html

[5] http://blogs.vancouversun.com/2013/12/16/hong-kong-puts-15-per-cent-tax-on-foreign-buyers-will-b-c-follow-suit/

In Canada, many Provinces have restrictions on foreign ownership. Alberta limits non-residents to owning no more than 2 plots of land, not exceeding a total of 20 acres. In Saskatchewan, non-residents may not own land over 10 acres. Prince Edward Island charges non-resident owners higher property taxes and non-resident buyers must apply to purchase land over 5 acres or land with shore frontage over 165 feet.

British Columbia, especially the city of Vancouver, has evolved into a world class destination that now demands a world class taxation formula. Increasing the Property Transfer Tax rate for foreign purchasers could replace any revenue lost due to the reduction for primary residence.

Property Transfer Tax versus Primary Residence Grant

$525,000 House			
Property Transfer Tax	$200,000 x 1 %	$325,000 x 2 %	$8500
Primary Residence Grant	$525,000 x 1 %	$0 x 2%	$5250
Non Residents	$200,000 x 2%	$325,000 x 2%	$ 10,500

THE CHAMBER RECOMMENDS

That the Provincial Government:

1. amend the current Property Transfer Tax Act to provide for a new Primary Residence Grant;

2. continue to increase the threshold for the First Time Home Buyers exemption; and

3. introduce a new Property Transfer Tax rate of a minimum of 2% of the property purchase price for all property in British Columbia bought by non-residents of Canada or corporations controlled by non-residents.

Submitted by Kamloops Chamber of Commerce Policy Committee