IPTI Xtracts

Property Tax and Assessment News from Around the World

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Cities should think outside the box and cut property taxes

If cities don't tighten their belts by reining in employee pay, benefits and pensions, we can expect a longer recovery than necessary

A recent Canadian Federation of Independent Business survey suggests one in six small businesses is now “seriously contemplating” shutting down for good.

One obvious way to help struggling businesses and families would be to cut their property taxes. To do that, municipal politicians will need to make tough decisions and reduce spending. That’s not a process they will enjoy but if they don’t act, that could slow down the economy’s recovery.

Most municipal governments in Canada depend heavily on property taxes so they are naturally reluctant to cut them. As a result, a business can see its revenue evaporate because of a lockdown, but still face a hefty property tax bill. For a gym or restaurant that is barely hanging on, having to pay property tax — even at rates that may be frozen — could serve as the final nail in the coffin.

Fortunately for municipal governments, there are many ways to reduce expenses without cutting essential services, like policing, fire-fighting or fixing potholes. In a new report, Cost-cutting options for municipalities, SecondStreet.org and the Canadian Taxpayers Federation highlight 10 initiatives municipal governments could pursue to reduce expenditures and lower property taxes.

The most impactful decision would be to address by far the largest spending envelope at city hall: salaries and benefits. Government employees tend to earn more than those outside government doing similar work, and the pandemic has only widened this divide. Throughout the private sector, stories of pay reductions and lost income were common in 2020. Everyone from Cineplex and CFL teams to media outlets and the energy sector reported pay reductions publicly. Yet, 2020 research by SecondStreet.org couldn't locate a single example of any major Canadian city reducing pay for its unionized employees. It's not actually the case that "we're all in this together." Some of us have been in it much more than others.

Even a small reduction in municipal salaries — say, five per cent — could help municipal governments, which could pair such a decision with grandfathering-in even larger wage reductions for future hires. Government employee unions almost certainly will reject the idea of opening up existing contracts to find savings. But many Canadians working outside of government had their contracts renegotiated during the downturn. It's a far better outcome for government employees than the alternative, which is layoffs.

Another area worth examining is one of the fastest growing costs for municipal governments — employee pensions. For example, between 2009 and 2019, the City of Toronto increased its pension spending by 83 per cent versus just a 29 per cent increase in its overall spending. Municipalities needn't cut back on existing retirement benefits but they could provide new hires with less costly benefits, along the lines of reforms Saskatchewan made in the 1970s.

A third source of savings would be for governments to stop gambling taxpayers' money on grants for businesses. Right now, it's not uncommon for cities to cross their fingers and hand over cheques to hand-picked businesses, hoping they will grow and create jobs. One example is the $100 million the City of Calgary has set aside for the Opportunity Calgary Investment Fund. A better approach to creating new jobs and maintaining existing ones would be for governments to simply leave those dollars in existing, proven businesses' hands in the first place.

These are just a few examples of ways municipal governments could reduce spending and property taxes. If they refuse to do what the rest of society has done — tighten their belts — then we can expect a longer recovery than necessary.

ALBERTA

Zero cap on Calgary biz property tax tentatively approved by city committee

Calgary councillors approved a preliminary property tax cap at zero per cent for non-residential properties, funded by the city's reserve cash.

The item came up at Tuesday's Priorities and Finance committee, after councillors received an update from administration on the 2021 Phased Tax Program (PTP). That's the tax relief program put in place annually since 2015, to cushion the blow of rising property tax hikes on Calgary business owners.

Council originally approved a limit of 10 per cent property tax increase on non-residential properties around the city during November budget deliberations. That was pegged at a cost of $21 million. Administration came back Tuesday and said the original recommendation for 10 per cent would only cost $13 million.

Some non-residential properties were set to see an increase of between seven and 25 per cent.

There was talk of reducing it further to around a five- or six per cent cap. Then Coun. Jeromy Farkas introduced a proposal that made $44 million available in the PTP, thus providing businesses with a zero per cent property tax increase.

Money from previously approved PTP and an additional $23 million from the city's fiscal stability reserve (FSR) will fund it.

"We have to do absolutely everything in our power to help these businesses survive," said Farkas.

"And with have every single tool at our disposal, regardless of whether you like it or not."

Committee members voted in favour of the measure, 9-1. It will now go on to a full meeting of council in March for final approval.

The bow wave

Some councillors were concerned this would once again put off until tomorrow a problem that exists today.

"To encourage more of a bow wave is deeply problematic especially because it's a poison pill that you're handing to the next Council," said Coun. Gian-Carlo Carra, the lone dissenting vote.

What is a 'bow-wave'? If $44 million was supposed to be collected in 2021, that money (plus potentially more) still needs to be collected next year. It effectively compounds the problem annually – unless there's another PTP.

Mayor Naheed Nenshi also had concerns with supposed bow wave.

"The big increase that you're supposed to get last year flows through into this year," he said, noting that the increases to many properties are because they actually had good financial years.

Previously, the mayor has said non-residential properties like warehouses have done extremely well. The shift to online retail and storage during the pandemic has helped that property group.

“At some point you’ve got to let the market do its job,” Mayor Nenshi said.

While he supported it, Coun. Evan Woolley said the city can afford to help struggling businesses, so they should. But, he said they have to get away from being so reactive to these situations.

“While I’m supportive of this, I realize that it’s one time, I realize that we actually have a lot more proactive investments that we really need to think about in the downtown,” he said.

Banff hotels drop $176 million in assessed value

Banff's residential property assessments remain relatively stable, decreasing about one per cent.

The COVID-19 pandemic has led to a $200 million drop in non-residential property assessments in the tourist town, with hotels down about $176 million in value.

Non-residential assessments, including hotels, retail properties on Banff Avenue and Bear Street and industrial properties, have decreased from $1.338 billion to $1.138 billion – a reduction of $200 million or 15 per cent.

“The total loss in values to all the hotels was $176 million this year,” said Frank Watson, an independent assessor hired by the Town of Banff, during a presentation to Banff town council on Monday (Feb. 8).

While there was an overall drop in value for hotels of about 15 per cent, Watson said higher-end hotels, with amenities such as spas, convention centres and restaurants, saw an even bigger drop.

“The impact in Jasper was not as much as the impact was in Banff, and I think that’s really because Jasper wasn’t under a full lockdown,” he said.

“But a 20 per cent reduction is pretty typical to what went on in say, Calgary.”

Watson said non-residential property values have increased over the years, with 2014 and 2015 seeing as high as 20 per cent increases each year.

But he said the last time values dropped this significantly was in 2011, to the tune of about 22 per cent.

“This is not unlike what happened during the financial crisis of 2011,” Watson said.

An income-based approach is used to determine the market value of commercial properties, which is based on the year end of June 30, 2020.

Chris Hughes, the Town of Banff’s director of corporate services, said it’s important to note, therefore, that the full impact of the COVID-19 pandemic is not considered in these assessments.

"At July 2020, we were just a few months into the COVID pandemic, so we probably had about four months of the pandemic that could be factored in these assessments," he said.

In addition, the income-based assessment is weighted on a three-year average – 50 per cent of the value is based on the July 1, 2019 to June 30, 2020, 30 per cent for the year prior to that and 20 per cent the year before that.

Hughes said that leads to a lag in the financial impacts being seen.

"From 2017 to 2018 and 2018 to 2019, there were some pretty good years financially in the non-residential sectors, so that impact of those years is still being felt in these assessed values," he said.

"The full impact of the pandemic won't be felt until next year's assessments are done – and even for the next couple of years."

Watson said he predicts there will be a decrease in non-residential property values again next year.

"I don't think it's going to be as much of a reduction as we're seeing this year," he said. "I think things will level off."

Of interest, Watson said there were three hotels that sold in Banff in 2020 during the pandemic.

"Hotels in Banff, or any property for that matter, very seldom sell," he said, noting he believes the last sale of a hotel was Pursuit's purchase of the Banff International Hotel in 2012.

"Certainly, to have three hotels sell during the height of COVID is very uncommon."

On the residential side, property assessments are based on actual sales.

Residential assessments in Banff have decreased about one per cent, or about $8.25 million, from $1.902 billion to $1.893 billion.

"They've held fairly steady," Hughes said.

Property assessment notices were due to be sent out on Tuesday (Feb. 9). There is a 60-day appeal period.

Hughes said there is no direct correlation between assessed values and taxation.

He said the municipal operating budget, which council passed last month with a 5.6 per cent tax decrease, plays a role, as does how a property changes in assessed value compared to the average in that sector.

"The third item is the tax rate split, which is set by the tax rate bylaw," he said, noting that will likely come before council in late April or early May.

In addition, the Town of Banff collects taxes on behalf of the Alberta government for the education requisition. The municipality has no control over that.

“We have very little insight as to what that will be at this point; they haven’t released an education budget,” Hughes said.

“It would be a fool’s game to try to estimate what that will be this year.”

Taxpayers group: Keep property taxes low to help Canada's economic recovery

Keeping property taxes low and reducing spending are necessary to help Canada recover from the COVID-19, argues the Canadian Taxpayers Federation and think tank SecondStreet.org.

The groups released a report Tuesday suggesting Canadian municipalities look at cutting pay for politicians and city employees, reforming pensions, eliminating business subsidies, prioritizing spending and selling surplus land. The City of Edmonton voted to freeze 2021 property taxes last year.

“If a business or household is struggling right now, a property tax increase, even a freeze, could really hurt their ability to stay afloat,” SecondStreet.org president Colin Craig said in a news release.

“Just as households and businesses have tightened their belts, there’s room for municipalities to do the same. If they curtail their expenses then they can help save some jobs by reducing the property tax burden on struggling businesses.”

The groups also called for spending to focus on priorities like policing and road repair and not discretionary spending like sports facilities and public art, that more city services be put out for tender, for a reward system where staff pitch ways to save money, and asking other municipalities for cost-saving advice.

It also pointed to some ways Edmonton could scale back, including the mayor’s car allowance, and transition payments for councillors leaving office.

Coun. Aaron Paquette called the recommendations “shallow, facile, and hopelessly naive.”

“It’s clear that they’ve never actually worked in a city or understand how a city works,” he said.

“It’s not municipalities that are the problem. We had a charter with the province that the province ripped up and saying it was too expensive, and then they promptly got us into $24 billion in debt in one year alone.”

Paquette said the city has already brought in several items recommended in the report, like using a priority-based budgeting format, and freezing property taxes and council’s salaries. The city cut 300 positions with the last budget to keep taxes from going up.

Other recommendations, like cutting transition allowances, are just for show, he says.

“It has actually no practical application in running a city, but it sure sounds good as a populist demand.”

Coun. Jon Dziadyk said the report’s recommendations are a good reminder to look for savings and innovation.

“Every time we adjust our budget there’s opportunities for the public to come speak at our public hearings … and often we get inundated with requests to spend more money for all types of good projects, rarely do we hear a voice of restraint,” he said.

“I do think this is a good reminder that the city should not be in the land development industry.”

Dziadyk said he been advocating to sell more city lands, and recently voted against a $22.9-million grant for downtown developers. He also welcomed the idea of employees offering up ideas for cost-savings.

BRITISH COLUMBIA

Sparwood property values jump 11 per cent for 2021: BC Assessment

The district remains “relatively affordable” compared to neighbouring Fernie

Median property values in Sparwood have increased 11 per cent for 2021 according to BC Assessment.

In a presentation to district councillors, Sharlynn Hill of BC Assessment said that the median value for a single family dwelling in Sparwood had been assessed to be $298,000 in 2021 – an 11 per cent jump over 2020 values of $267,000.

Compared to the rest of the valley, Sparwood is “still relatively affordable compared to its neighbours – it’s still a little bit above Elkford but quite a bit less than Fernie,” said Hill.

Single family dwellings in Fernie were estimated to have a median value of $606,000 – a 10 per cent jump over last year when it was $551,000. Fernie is home to the most expensive homes in the entire Kootenay region according to BC Assessment.

Elkford retains the lowest median values in the Elk Valley at $256,000 – having jumped only three per cent over 2020.

Property assessments will inform property taxes due later this year.

The real estate market had a wild ride in 2020, with home sales in the wider Kootenay region falling to as little as 40 per cent of the pre-COVID baseline between March and April, but picking up significantly through to the end of the year.

“Everything ground a halt there in terms of sales and building starts, and then everything just shot right up,” said Hill, who added that the market trends seen in Sparwood and the wider Kootenay region were the same across the rest of B.C. and Canada.

“September was really hot in the valley – lots of closed sales,” said Hill.

Within Sparwood, BC Assessment data showed that 108 units came on the market in 2020, down from 112 in 2019, but the total volume of sales was up to $28 million from $25 million, reflecting the increase in values overall.

Buyers were quicker on the draw in 2020 too, with the average number of days on the market for properties in Sparwood falling to 103 in 2020 from 122 in 2019 and 184 in 2018.

The average sold price across the market was $259,000 for the district in 2020. A month into 2021, the average sold price so far is well up to $298,000.

For the entire district (including industry, commercial and farmland), there is almost $750 million in taxable real estate value. Residential property (of which there are 2,106 properties) makes up the lion's share, at over $476 million. 'Major industry' (28 properties) which includes mining operations contributed to $137 million worth of taxable value.

MANITOBA

City of Brandon approves 1% decrease in municipal taxes

City of Brandon residents could have seen an increase in property taxes of 3.15 per cent in 2021, but city council dug deep and used money from the federal government to allow for a decrease in taxes of 1 per cent.

Brandon City Council approved a municipal budget for 2021 on Saturday night that will see the residential property tax rate go down by one per cent.

That works out to a savings of about $19 for an average residential property assessed at $270,000 compared to last year's municipal property tax levels.

"This year we felt it was ever more important to provide our community with [as] modest an increase as at all possible, and so everyone really dug in and we were quite innovative," said Mayor Rick Chrest after a 10-hour day of deliberations.

"I think that residents and businesses should be pleased to see that their taxes aren't going up and they'll realize a little bit of a saving."

The decrease was a marked change from the original proposed budget, which would have seen a residential property tax increase of 3.15 per cent.

Prior to the budget deliberations, Chrest posted to the city's website promising to take the budget process seriously and to look at how to reduce that number after the city had "numerous comments provided."

That saving is thanks, in part, to COVID-19 restart funds provided to the city by the federal government for pandemic-related expenses and support.

Chrest said about $600,000 of the nearly $3 million from the federal government was used to lower taxes. Some was used to pay off COVID-19 related costs from 2020, and the rest is being put in a reserve for future use.

Ward 2 councillor Kris Desjarlais said that money is earmarked for the future, because there's no telling what it could hold.

"That's why it was important for us not to just, you know, use that money in its entirety to keep taxes down this year. So we've given ourselves some funds to play with there," he said.

The original proposed operating budget going into Saturday's decision-making process was $85.5 million. In the budget approved Saturday evening, city council managed to cut that number down by close to $2 million, according to a press release from the city.

In addition to the tax decrease, the city approved the first phase of a new outdoor field complex in the north part of the city on 1st Street North and Veteran's Way, the release said.

Council also voted to double its back lane dust control budget and add $200,000 for back lane maintenance.

NEW BRUNSWICK

Real Reform on Real Property Assessment in New Brunswick

New Brunswick (NB) property tax reform has been a hot topic over the last number of years. Many of us may recall a media storm in NB surrounding flyover imagery used for reassessments that was allegedly mishandled.

An uproar ensued…

Soon after, debate started over how to best reform assessment practice and responses, amongst others, included:

- an extended appeal deadline at the time
- an assessment freeze the following year
- a proposed independent agency to oversee assessment
- record volumes of appeals
- a special examination by the NB Auditor General
- and a number of legislative changes

Some highly contested proposals, including one to tax machinery and equipment, haven't gained traction to date. In contrast, more popular ideas such as the removal of what's referred to locally as "double taxation", whereby apartments or non-owner occupied homes get taxed at higher rates, were unfortunately blocked in the wake of the pandemic and crippled budgets.

NB's high tax rates aside, our view is that some of the biggest opportunities for reform centre around what NB does differently than most. This article will outline some significant opportunities for improvement.

NB's Complete Lack of Uniformity Provisioning in our Assessment Act

Lack of uniformity provisions in NB legislation deserves the top spot on this list. These safeguards, otherwise referred to as "equity" provisions, are commonplace across most of Canada and are a cornerstone of fair assessment practice.

Unfortunately, based on current NB legislation, there is no obligation on the assessment authority to assess two like properties in the same way. Yes, you read that right. There can be two very similar properties with two very different assessments. Yet, under the current system, you can't argue that this is unjust. This is abnormal.

There are very few assessment regions within Canada whose assessment legislation does not include an equity provision. The only other province without any equity provisions in some form is the Province of Quebec. Some provinces provisions are better than others, but we don't have to go far to find strong examples of uniformity in assessment legislation. For instance, Prince Edward Island's "Real Property Assessment Act", Section 28.1, under the heading of "Accuracy of assessment, proof of" states;

Subject to subsection (2), in any appeal to the Commission, the Minister shall demonstrate the uniformity of the assessment in relation to other assessments.

Newfoundland and Labrador's, "The Assessment Act, 2006", Section 17 (3), under the heading of "Assessment of real property" states;

In forming an assessment for the purpose of subsection (1) an assessor shall have regard to the assessment of other properties in the city or municipality being assessed to ensure that the taxation falls in a uniform manner upon the real property that is subject to taxation in the city or municipality.

The foregoing are examples of uniformity provisions with ample case law that reinforce the need for fairness in assessing one property equitably to another. It is not difficult to appreciate the merits of uniform assessment, yet NB taxpayers have no recourse as uniformity provisioning is absent from our legislation. The irony is a Supreme Court of Canada decision, *Jonas v. Gilbert*, from a case originating in Saint John, NB is often cited and reads;

Unless the legislative authority otherwise ordains, everybody having property or doing business in the country is entitled to assume that taxation shall be fair and equal, and that no one class of individuals, or one species of property, shall be unequally or unduly assessed

NB's lack of uniformity provisioning is likely the biggest deficiency in NB's assessment legislation. But it would be remiss if we didn't address other reforms also considered to be worthwhile in NB.

Further Transparency of Assessment Data

It is recognized transparency in NB assessment data has improved in recent years. For instance, the release of the Property Assessment Online (PAOL) search tool (www.paol.snb.ca) a few years ago was a stride in the right direction. There are of course benefits to the public having access to assessment data, particularly considering scrutiny in recent years.

More opportunity remains in what is not released in NB. An example is the recently released 2021 assessments. To provide a little background, 2021 marks the first year where COVID-19's implications on property values will be considered in assessments in NB. This is a result of the 2021 base date of assessment being January 1, 2021 after the virus's proliferation in Canada.

In response, Service New Brunswick identified five property types to hold back for a later release to allow them time to investigate the impact of the pandemic.

The held property types included:

- hotels, motels and resorts
- shopping centres
- restaurants
- office buildings
- airports

These notices summed some +/- 1,850 accounts and were released in late January of this year. For the most part, blanket reductions have been made to varying degrees by property type.

Seemingly, any analysis of the held assessments would be straight forward. The problem is that the data released loses meaning because key information is not made public. Most notably, in this example, the assessment roll released does not specify the property types. This is key information as it would allow, for instance a shopping centre owner, to look at all the shopping centres and see how assessments were reduced comparatively.

To further complicate this, there were also over 128,000+ notices that were also held and released at the same time as the COVID-19 held notices for completely unrelated reasons. So, isolating the COVID-19 affected properties becomes somewhat of an exercise in futility.

Were this in Nova Scotia, the public would have access to much more information. Not only could they access the property types, but they can also get data such as the classifications (i.e. residential vs. commercial), the building age, and the building size. Needless to say, all this data is absent on the assessment roll published in NB and there remains opportunity for continued improvements in transparency.

Recourse for Tax Classification Issues

In NB, assessable realty is classified as either residential or non-residential (i.e. commercial) while mixed-use properties are allotted a proportion of both. Residential classified properties are taxed at a lower rate and as such there is an implication on tax burden an owner faces due to classification. This can be particularly contentious with vacant lands. So, the question becomes; what happens when you disagree with a particular classification? Well unfortunately in NB there is no mechanism to do so. In fact, the legislation actually reinforces a lack of recourse. NB's Assessment Act, Section 4(12) actually reads;

The Director's determination under paragraph (1)(f) that real property or any portion of real property is used for commercial purposes or is residential property referred to in paragraphs (a) to (f) of the definition "residential property" is final and may not be questioned or reviewed in any court.

That is some pretty strong language and is unusual as in most assessment jurisdictions you can generally dispute classification through the appeal process or otherwise. Yet in NB it cannot be "questioned or reviewed in any court" so evidently the taxpayer is at a disadvantage here.

Remedy of Roll Release in Advance of Base Date

A final challenge in NB is a rather new one. As a result of legislative change, the separation of the tax notice and the tax bill was rolled out this year. Historically, the tax bill and the tax notice were mailed together at the beginning of March with a 30-day appeal window. These assessments were valued as of January 1 for that given year. Previously the notices were mailed after the valuation date, which stands to reason as we should not expect assessors to have crystal balls and value in the future.

With the separation of the tax notice the timeline is now quite different. The tax bill still comes in March, but the bulk of assessments are now mailed five months earlier in October. For 2021, assessment notices were mailed in October of 2020 and were to be valued as of January 1, 2021 (in the future). In fact, to have the roll ready, values would have been set in advance of the October mailing date. All this is relevant, as by the time the January 1 valuation date comes around the 30-day appeal window has long since expired.

So, what happens if a property's value drops after the appeal window and before January 1? Well, if the assessment authority hasn't held the notice or doesn't reissue one (both of which are done at their discretion) the owner is out of luck. The appeal window will have expired and the next opportunity to appeal will be the next year's assessment under a separate cycle.

Ultimately, the release of the assessment in advance of the base date is unusual and I am not aware of any assessment authorities in Canada who do this.

To remedy this, there are many solutions, including:

- extension of the appeal deadline to at least the base date
- a later release of the assessment notices
- or a change of the base date altogether to one in advance of release of the notices

Change is Possible

In summary, public sentiment appears to be one of reform as it pertains to assessment practices in NB. Various bills and motions have been tabled and some have materialized as amendments to acts and regulations, so change is possible.

There are many opinions out there on where to go from here as NB certainly does many things differently. Fairness should be a central focus, and much can be learned from other jurisdictions. Hopefully, reform will continue in NB and ease some of the concerns covered in the news

NOVA SCOTIA

Halifax councillors to consider increasing property tax rebate for affordable housing

As part of their budget process, Halifax regional councillors will consider increasing the rebate on property taxes for non-profit organizations providing affordable housing.

Council's budget committee met on Wednesday to hear presentations from three municipal business units — Fiscal Services, Finance, Asset Management and ICT, and Corporate and Customer Services. Councillors approved, in principle, proposed operating budgets for all three.

The Finance, Asset Management and ICT budget, approved for about $43.2 million, could be increasing by $446,000.

That's because staff brought forward an option over their target budget for council's consideration: "Increase non-profit tax rebate for affordable housing from 25% to 50% starting in fiscal 21/22."

Many registered non-profit organizations in HRM are eligible for some level of property tax relief, ranging from conversion to residential (versus commercial) tax rate to 100% tax relief.

Two thirds of non-profits receiving tax relief are housing providers, according to a September 2020 staff report.

Some of them, including the Dartmouth Non-Profit Housing Society and Harbour City Homes, have some of their properties 100% exempt from property taxes.

Others, like Adsum Association for Women and Children and Affirmative Ventures Association have 75% relief on some of their properties. Many more get 50% relief, but most housing nonprofits get 25% relief, including many housing co-operatives.

The proposal from staff, which will be accompanied by a short briefing note for councillors later in the budget process, would presumably move all those housing providers to 50% relief.

"This would be an ongoing expense and we would have to build that into the budget each year going forward," chief financial officer Jane Fraser told council on Wednesday.

In September, council voted in favour of staff-recommended amendments that make it easier for non-profits to maintain their tax relief. They'll no longer have to complete a full application every year.

More certainty in the level of tax relief for housing non-profits would not only free up more money for them to provide more housing or squirrel away rainy day funds, but could also provide more confidence for potential lenders, including the Canada Mortgage and Housing Corporation.

There was little discussion on Wednesday on the item from councillors, who voted to add the $446,000 to their budget adjustment list, sometimes called the "budget parking lot." At the end of the budget process, scheduled for April 20, council's budget committee will debate whether to add those items to the budget and how to pay for them.

Because the $446,000 is an ongoing expense, staff will caution councillors against paying for it using one-time money like surplus or reserve funding.

The budget parking lot items, including last week's additions, now total $650,600.

The budget committee meets again next week to consider operating budgets from Halifax Regional Police and Halifax Public Libraries.

ONTARIO

Toronto Exploring Luxury Home Tax That Could Bring $18.7M in Revenue

Toronto could see an additional $18.7 million in revenue this year if city council approves a proposed luxury home tax.

In a move to balance the books at City Hall and generate revenue to pay for things the city needs, such as transit and affordable housing, councillors are exploring implementing a luxury home tax on higher-end properties.

Currently, properties valued at more than $2 million are subject to a municipal land transfer rate of 2.5%, in addition to provincial fees. However, if this was bumped up another 1%, it would generate the aforementioned additional revenue.

According to a Toronto budget briefing note, as an example, adjusting the rates 1.0% higher (from 2.5% to 3.5%) on property sales with a value of consideration higher than $2 million could yield an additional $18.7 million. If the threshold was set at properties worth $3 million, the city would generate an additional $6.4 million.

City staff said implementing new upper tiers and rates on values could have negative, yet transitional, impacts on the housing market.

Staff said a new municipal land transfer tax tier would incentivize buyers and sellers to transact below the cut-off. The increased transaction costs from graduated rates could also slightly reduce the liquidity of real estate, particularly in the luxury homes market, which staff says is now showing some signs of decline.

However, staff said the changes could discourage current homeowners from up-sizing to lower-end luxury homes, which could potentially tighten the housing supply for mid-value homes.

While the luxury home tax could help the city generate much-needed additional revenue, some luxury real estate specialists think it may discourage some buyers from buying bigger homes.

“As of right now, the real estate sector is helping our economy, and if the government decides to implement this tax, it may make some buyers shy away from buying a bigger home in Toronto,” Dorian Rodrigues a Broker with PSR told Toronto Storeys.

“I understand why they’re doing it but it won’t actually help our economy at all, it’ll just make things worse.”

This proposed tax would be similar to what’s already been implemented in Vancouver, which Sotheby’s International Realty Canada CEO, Don Kottick, has said caused unintentional negative consequences for homebuyers.

“It stalled activity in the market for luxury housing over $3 million, therefore many people delayed decisions to move up or out and their homes did not come on the market. This trickled across many segments of the market, such as for attached homes which are popular with young families and downsizers, and contributed to a lack of supply and housing options," said Kottick.

Kottick says there is often the assumption that taxes are the only way to generate government income and to solve housing affordability challenges. However, a permanent solution for Toronto's housing market won't be the proposed luxury home tax, said Kottick.

"Taxes can be like crack to governments: the land transfer tax was only meant to be a temporary tax and is now permanent as the government is dependent upon it. This proposed luxury home tax poses the same risk of being a permanent tax without offering a permanent solution."

However, Kottick believes governments should be looking at implementing more sustainable solutions that don't have the unintended negative consequences that often come with heavy taxation.

If approved by city council, the tax changes would require at least two months to implement, according to city staff.