




P.O. Box 1749
Halifax, Nova Scotia
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Item No. 14.1.3
Halifax Regional Council
March 22, 2016

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by 

John Traves, Q.C. Acting Chief Administrative Officer

Original Signed by 

Jane Fraser, Acting Deputy Chief Administrative Officer

DATE: February 16, 2016

SUBJECT: Deed Transfer Tax Collection Alternatives

ORIGIN

Motion from Councillor Nicoll, on October 6, 2015.

“That Regional Council request a staff report to examine the options of amending the policy regarding the collection of the Deed Transfer Tax. This could include waiving the DTT for first-time buyers, extending the DTT over a five (5) year payment period for first time or all buyers or reducing the DTT.”

LEGISLATIVE AUTHORITY

Halifax Charter Section 122:

Deed transfer provisions of Municipal Government Act apply 122 Part V of the *Municipal Government Act* applies to the Municipality.

Municipal Government Act Part V, 102:

Deed transfer tax by-law

102 (1) A council may determine, by by-law, that a deed transfer tax applies in the municipality and the rate of the deed transfer tax, but the rate of the deed transfer tax shall not exceed one and one half per cent of the value of the property transferred.

(2) A deed transfer tax applies to the sale price of every property that is transferred by deed. 1998, c. 18, s. 102.

HRM By-Law D-200 Respecting Deed Transfer Tax sections 2 & 3:

2. (1) A Deed Transfer Tax applies in Halifax Regional Municipality
(2) The rate of the Deed Transfer Tax shall be one and one-half per cent of the value of the property transferred.
3. The Registrar of Deeds shall be the agent and collector of the Deed Transfer Tax for Halifax Regional Municipality in accordance with the agreement to that effect between Halifax Regional Municipality and the Minister of Service Nova Scotia and Municipal Relations.

RECOMMENDATION ON PAGE 2

RECOMMENDATION

It is recommended that Halifax Regional Council maintain the current “status quo” with respect to the Deed Transfer Tax regime.

BACKGROUND

Deed Transfer Tax (DTT) is a revenue tool that is widely used by Provincial and Municipal Governments to generate user fee revenue related to the purchase and sale of real property. On a municipal level, DTT revenues supplement property tax revenues and fund municipal programs and services. The DTT rate in the Halifax Regional Municipality (HRM) is set by Council through By-Law D-200, “Respecting Deed Tax”, at a rate of 1.5% on the value of the property transferred.

DTT revenues can be volatile and are directly impacted by both the residential and commercial real estate markets. This volatility can impact fiscal budgets, operating deficit/surplus positions and the general tax rate. When the real estate market is experiencing growth, DTT revenues help lower or hold the general rate, while conversely in times when the real estate market is in decline, reduced revenues have to be offset by general rate increases or cost reductions. Attachment 1 illustrates DTT revenues by fiscal year for HRM. From observation of the chart it is clear how volatile DTT is to economic market conditions that impact the real estate market. In the wake 2008 financial crisis DTT revenue decreased \$4M (-11%) over one fiscal year, while conversely after the announcement of the Irving Shipbuilding Contract, DTT revenues rose to record highs of \$39.2M in fiscal 2011-12 and \$41.1M in fiscal 2012-13, and contributed \$7M and \$6M respectively in surplus revenue. Since this market bubble, DTT revenues have declined -13% year over year for fiscal 2013-14 and 2014-15.

For the year ended 2014-15 actual DTT revenue was \$31.3M (estimated \$21M residential market; \$10M commercial market). For fiscal 2015-16 gross DTT revenue from both residential and commercial transactions has a budget of \$32M. As a percentage of total budgeted revenue for fiscal 2015-16 DTT revenue is 3.8%.

DTT is payable on transactions where the following criteria are met:

1. There is a “deed”;
2. The “deed” is sufficient to convey an interest in real property;
3. The “deed” is given pursuant to a sale and the transfer is taxable when there is a sale for valuable consideration; and
4. The deed transfer tax is calculated pursuant to the by-law as described in the deed transfer affidavit of value which is normally submitted with the deed.

From a home buyer perspective, DTT is typically collected by the home buyer's lawyer on closing and remitted to the Land Registry, operated by Service Nova Scotia, when the property deed is filed and registered. The Land Registry subsequently remits the revenue to HRM. DTT is often viewed negatively by homebuyers as there is no municipal service related to the tax and it increases real estate transaction costs. Critics of DTT have expressed a view that it should be discontinued and the revenue loss covered through the general rate, with the tax burden born by all taxpayers, not just purchasers of real property. Canada Mortgage & Housing Corporation (CMHC) in its fall 2015 Housing Market Outlook (see attachment 4) forecasts that the existing home average sale price in HRM is \$280,000 and the average sale price of a new single detached home is \$420,000. DTT on a home in HRM that sold for \$280,000 would be \$4,200, while a home selling at \$420,000 would have a DTT of \$6,300.

DISCUSSION

The discussion section of this report will outline different policy and collection alternatives to the current DTT regime for residential DTT as directed in the motion, including costs based on residential sales data

from fiscal 2014-15, with the exception of alternative 6 which includes commercial sales. Staff will also provide commentary on economic factors that impact the residential real estate market and compare it to economic indicators for Halifax. Any of the 6 alternatives will require legislative amendments to the HRM Charter and/or the *Municipal Government Act*, and/or the Deed Transfer Tax By-law.

Attachment 2 of this report provides a cross jurisdictional scan of Municipal and Provincial Deed and Land Transfer Tax (LTT) Collection Policies. In many jurisdictions the DTT or LTT is levied and administered by the Provincial Government. With respect to the jurisdictions in Attachment 2, Alberta is the only jurisdiction that does not use the DTT or LTT as a revenue tool, charging a nominal amount of \$50.00 per deed registration and \$1.00 for every \$5,000 of property value. A purchaser of a home in Montreal or Toronto would be subject to both the Provincial and Municipal rate. In Nova Scotia, municipalities have been given the authority by the Province of Nova Scotia to levy DTT.

PEI, BC, Ontario and Toronto have an exemption program for 1st time home buyer; however no jurisdictions have a deferral payment program.

The following table provides a sample summary of DTT or LTT by city based on the 2014 average resale market price as reported by CMHC in its Fall 2015 Housing Market Outlook.

City	DTT/LTT Rate	Ave. Sale Price Single Detached Home 2014	DTT / LTT Amt	% **
St. John's (Prov)	\$100 fee 0.4% on property > \$500	\$306,450	\$1,324	0.40%
Charlottetown (Prov)	1%	\$205,834	\$2,058	1.00%
Halifax (Mun)	1.5%	\$274,004	\$4,110	1.5%
Moncton (Prov)	.5%	\$162,300	\$812	.50%
Montreal (Mun)	\$250,000 - \$500,000 = 1.5% Over \$500,000 = 2%	\$331,073	\$4,682	1.41%
Quebec (Prov)	1st \$50,000 = .5% \$50,000 - \$250,000 = 1% Over \$250,000 = 1.5%			
Toronto (Mun)	1st \$55,000 = .5% \$55,001 - \$250,000 = 1.5% Balance over \$250,000 = 1% Property over \$400,000 = 2%	\$566,491	\$14,110	2.49%
Ontario (Prov)	1st \$55,000 = .5% \$55,001 - \$250,000 = 1.5% Balance over \$250,000 = 1% Property value over \$400,000 = 2%			
Ottawa (Prov)		\$363,161	\$3,922	1.08%
London (Prov)		\$255,452	\$2,307	0.90%
Winnipeg (Prov)	1st \$30,000 = 0% \$30,000 - \$90,000 = .5% \$90,001 - \$150,000 = 1% \$150,001 - \$200,000 = 1.5% \$200,000 and higher 2%	\$273,363	\$3,117	1.14%
Regina (Prov)	\$0 - \$500, no charge \$501 - \$8,400 = \$25 charge \$8,401 and greater = .3%	\$314,968	\$943	0.30%
Edmonton (Prov)	\$50.00 Registration Charge \$1.00 for every \$5,000 of Value	\$362,657	\$123	0.03%
Calgary (Prov)		\$460,584	\$142	0.03%
Victoria (Prov)	1% for the 1st \$200,000 2% on the remainder	\$496,473	\$7,929	1.60%
Vancouver (Prov)		\$812,653	\$14,253	1.75%

** Total DTT/LTT divided by average sale price

Source: CMHC Fall 2015 Housing Market Outlook

There is a fairly wide range of DTT collected, with the top 5 being Toronto, Vancouver, Victoria, Montreal and Halifax. Attachment 3 of this report provides a benchmarking illustration of how Halifax benchmarks against other Canadian Cities.

Alternative 1: Waive DTT for 1st Time Residential Homebuyers

Statistics on annual first time home buyers are not readily available through traditional resources that report on housing such as CMHC, Stats Canada and the Conference Board of Canada. Staff estimates that approximately 35% of residential sales are related to new home buyers. Based on 2014 MLS sales of 4,692 and an average sales price of \$274,000, estimated DTT revenue levied on new home buyers is approximately \$7M ($4,692 \times 35\% \times \$274,000 \times 1.5\%$). This figure would represent minor savings compared to the overall closing costs and the purchase price in a real estate transaction. DTT savings to the 1st time home buyers could be used for a modest down payment, minor home repairs/improvements or minor savings/investment.

Waiving the DTT on first time home buyers based on fiscal 2014-15 market data would be an annual revenue reduction of \$7M.

Alternative 2: Extend the DTT Payment over a 5 Year Period – 1st Time Residential Homebuyers

This option would allow the first time residential home buyer the flexibility to elect to pay the DTT over a period of five years. Using the same market data and assumptions as option 1 and an estimated program uptake rate of 40%, annual DTT revenue to be repaid via a 5 year deferred payment plan would be approximately \$3M ($40\% \times \$7M$). This program may decrease the amount of cash needed by the purchaser at closing, but will put pressure on annual cash flows for the new home owner at a time when disposable income is more limited due to the costs associated with home ownership such as mortgage payments, property taxes, utilities and home maintenance.

It is envisioned that any deferred DTT would form a lien on the property and be repaid by the homeowner. A point worth highlighting is that the mortgage company could insist that the DTT be paid in full and that the property be unencumbered. This program would also require more staff effort/compliment, administration costs and control than what is currently required.

Although this program is revenue neutral, HRM's operating cash flows would be negatively impacted by approximately \$2.4M annually (excluding increased operating costs). Deferred payment plans are usually subject to interest. Charging interest on deferred balances would have the effect of making the DTT more expensive to home buyers over the long-term.

Alternative 3: Extend the DTT Payment over a 5 Year Period for All Residential Homebuyers

This option would allow all residential home buyers the flexibility to elect to pay the DTT over a period of five years. Using the same market data and assumptions as alternative 1 and an estimated program uptake rate of 40%, annual DTT revenue to be repaid via a 5 year deferred payment plan would be approximately \$8M.

Although this program is revenue neutral, HRM's operating cash flows would be negatively impacted by approximately \$6.4M annually (excluding increased operating costs). This program like alternative 2 would also require significantly more staff effort/compliment, administration costs and control than what is currently required, and could be subject to interest charges.

Alternative 4: Waive the DTT on Residential Condos or Reduce the DTT to 1%

There were approximately 658 sales of condos in 2014-15. The value of these sales was approximately \$167M, equating to DTT revenue of \$2.5M. Waiving the DTT on residential condos would be an estimated annual reduction in operating revenue of \$2.5M.

Alternatively reducing the DTT rate on Condos to 1% would result in an estimated revenue reduction of \$800K. This option of waiving or reducing the DTT on condos was reported to Council at the July 21st, 2015 Committee of the Whole in the “Condo Assessment and Tax Incentives for Density Report.”

Alternative 5: Reduce the DTT to 1% on all Residential Sales

Based on 2014 MLS sales of 4,692 and an average sales price of \$274,000, estimated DTT revenue levied on all residential home buyers was approximately \$19M. If the DTT rate was reduced to 1% DTT based on 2014 sales would be \$13M.

Reducing the DTT rate to 1% on residential sales would be an estimated annual revenue loss of \$6M.

Alternative 6: Amend the DTT to a graduated scale on all residential and commercial sales

- 1st \$50,000 @ .5%
- \$50,001 - \$300,000 @ 1%
- Over \$300,000 – 2%

Applying the above ranges to 2014-15 sales prices would result in DTT revenue of approximately \$26.9M, compared with actuals of \$31.3M for fiscal 2014-15. This option results in a loss of \$4.4M. Under this option properties assessed under \$650,000 will pay less than under the current DTT policy while properties that sell for more than \$650,000 will pay more.

The following table outlines DTT that would be payable under option 6, based on different sales price ranges.

Sales Price	DTT @ 1.5%	DTT @ Option 6	Savings
\$100,000	\$1,500	\$750	\$750
\$200,000	\$3,000	\$1,750	\$1,250
\$300,000	\$4,500	\$2,750	\$1,750
\$400,000	\$6,000	\$4,750	\$1,250
\$500,000	\$7,500	\$6,750	\$750
\$600,000	\$9,000	\$8,750	\$250
\$650,000	\$9,750	\$9,750	\$0
\$700,000	\$10,500	\$10,750	-\$250
\$1,000,000	\$15,000	\$16,750	-\$1,750
\$10,000,000	\$150,000	\$196,750	-\$46,750

Economic Indicators & Housing Market

Investment in real estate assets are often the biggest investment a person will make in their life. DTT is a user fee that can be an expensive out-of-pocket cost that is often perceived negatively by parties to real estate transactions.

As one of the expert authorities that report on the housing market, CMHC housing reports focus on the following as primary economic drivers of the housing market:

- Population
- Income and employment
- Mortgage interest rates
- Mortgage rules

Attachment 4 is CMHC's Forecast Summary Halifax – Fall 2015. With respect to the economic overview forecasted for 2015 compared to 2012 and 2013 when DTT revenue was at an all-time high after the Irving Shipbuilding announcement, employment levels and employment growth are more favourable. The net migration forecast for 2015 is consistent with 2012 and 49% better than 2013. Mortgage rates forecasted for 2016 are more favourable than in 2012 and 2013.

The Greater Halifax Partnership highlights in its October 2015 Economic Report that:

- 2015 continues to be a strong year for the Halifax economy, driven by strength in shipbuilding, construction, and the service sector.
- The labour market is also seeing strong growth in 2015, supported by growth in economic activity and returning workers from Western Canada.

Despite having a stronger economy, and record low borrowing rates, the housing market has been in decline over the last 3 years, which translates into a DTT revenue decline for HRM. Interestingly the apartment and condo market has been experiencing significant growth. Per attachment 4, CMHC forecasted multi-unit residential starts of 2,150 for 2015 compared to 1,246 for 2014. This is a 73% increase.

Although borrowing rates are historically low, new borrowing rules were introduced by the Government of Canada that took effect in July 2012. One of the new rules stipulated that the maximum amortization period of a mortgage was reduced to 25 years from 30 years. This measure would make it more difficult for potential new home buyers qualify for a mortgage and corresponds with the timeline that the housing market started its decline. The Assessment Cap is another arguable reason for market decline as existing home owners may be reluctant to lose their Cap and pay higher property taxes with the purchase of a new home.

Staff's advice on the issue of DTT is that there is little research to suggest DTT impedes market growth or is a barrier to entry into the real estate market. Changes in DTT collection policy as outlined in this report would make the transactional closing costs less expensive, but is unlikely to materially stimulate the real estate market. Rate reductions or other deferral programs are not currently available under our current legislative regime and if implemented would likely increase HRM's fixed operational and administrative costs.

FINANCIAL IMPLICATIONS

Any changes to the current DTT regime as presented as alternatives in the discussion section of this report would result in revenue reductions, which would have to be recovered by cost/service reductions or through the general tax levy. Operating cash flows would also be negatively impacted. HRM's

operational and administrative costs would also increase. The 2016-17 proposed fiscal budget as presented did not include or account for any changes to DTT regime.

COMMUNITY ENGAGEMENT

N/A

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

The discussion section of this report summarizes 6 possible alternatives to the current DTT collection regime. The alternatives are not recommended by staff.

Council could direct staff to look at other collection alternatives and report back on the financial implications. Any option will require legislative amendments to the HRM Charter and/or the *Municipal Government Act*, and/or the Deed Transfer Tax By-law.

ATTACHMENTS

- Attachment 1: Deed Transfer Tax by Fiscal Year
- Attachment 2: Cross Jurisdictional Scan of Deed Transfer Tax
- Attachment 3: DTT Benchmarking by City
- Attachment 4: CMHC Fall 2015 Forecast Summary

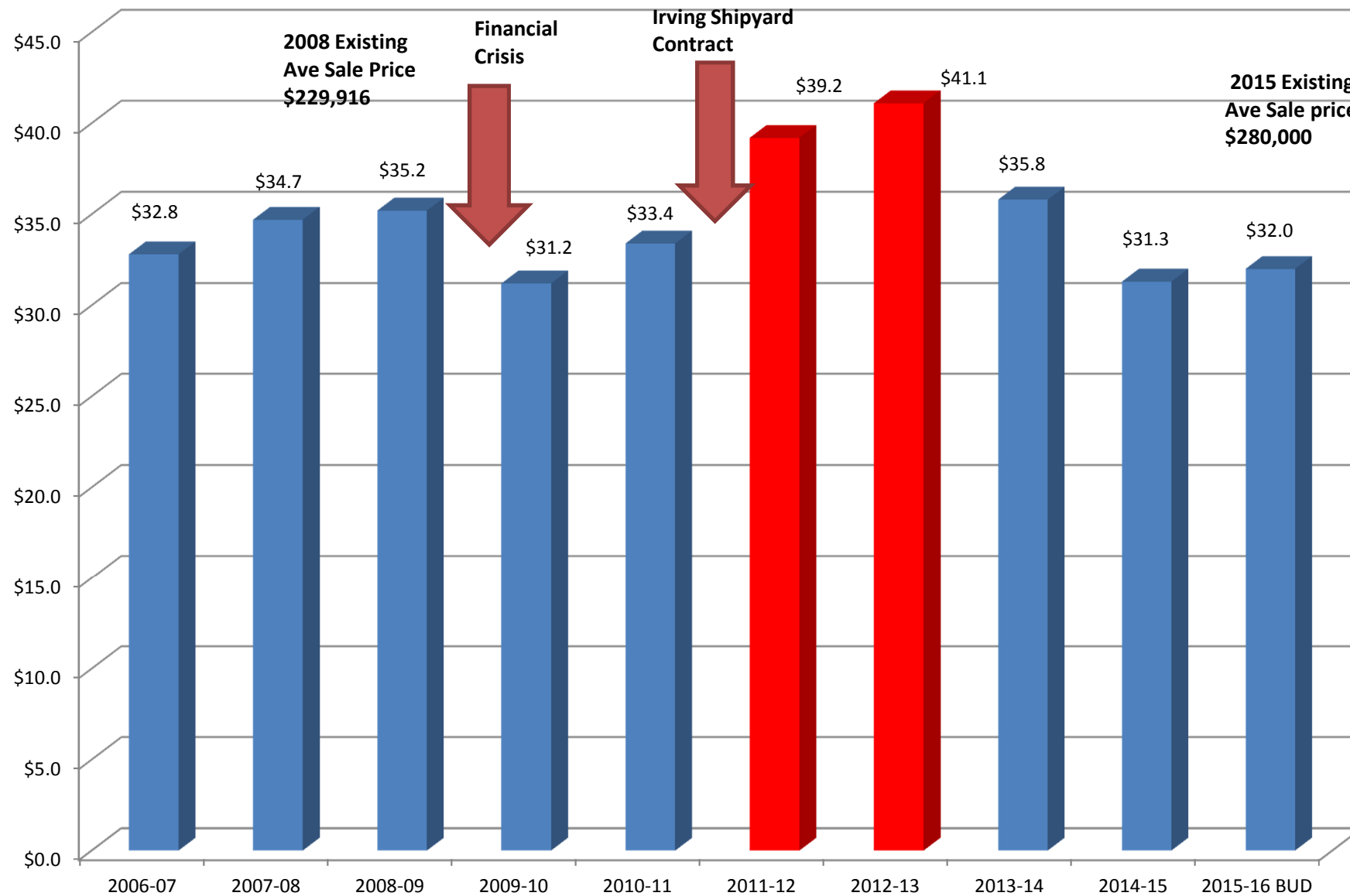
A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

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ATTACHMENT 1: DEED TRANSFER TAX REVENUE BY FISCAL YEAR (in 000,000)

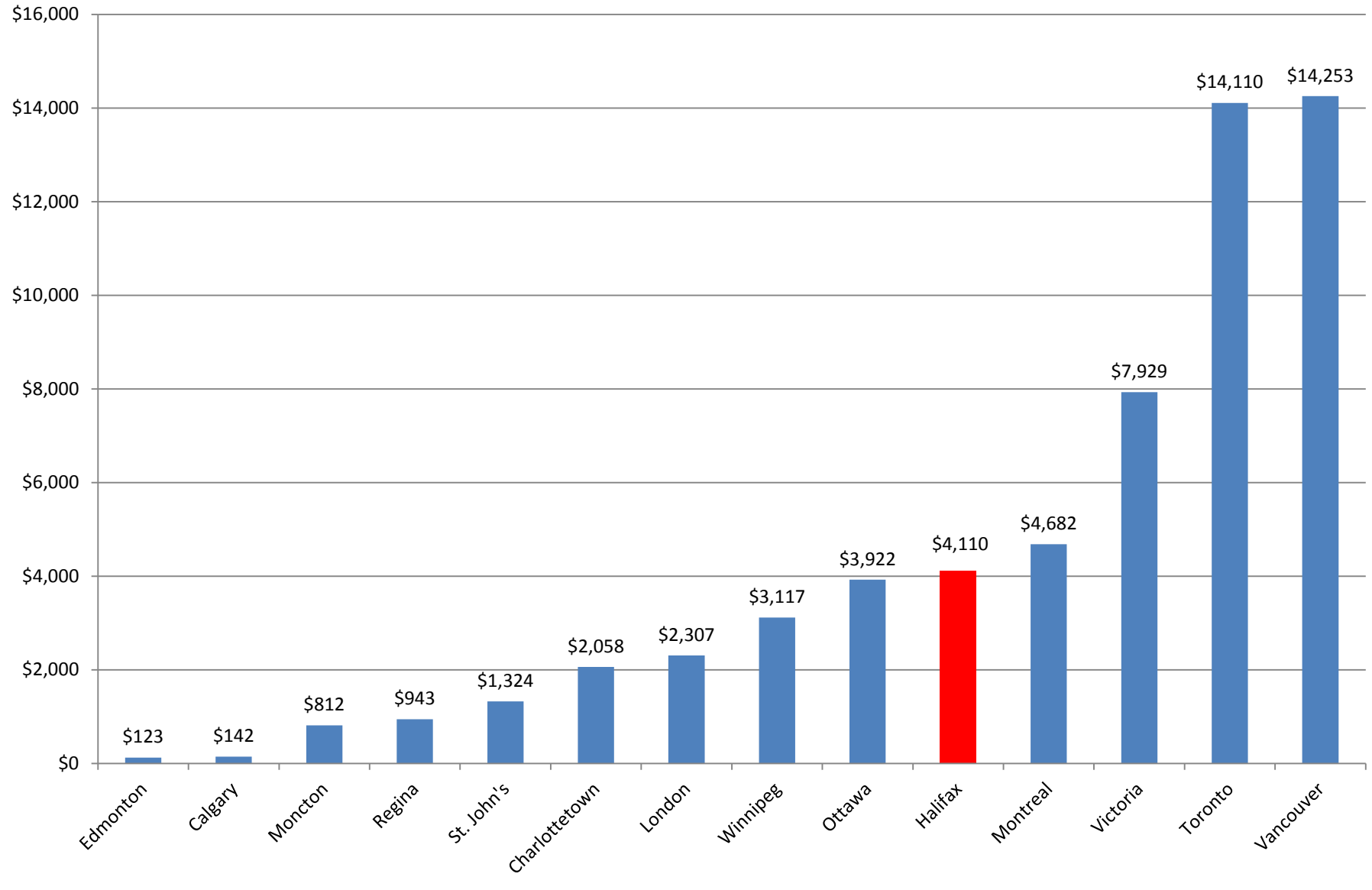


ATTACHMENT 2: CROSS JURISDICTIONAL SCAN – DEED TRANSFER TAX

MUNICIPALITY PROVINCE	DEED TRANSFER OR LAND TRANSFER RATE	PAYMENT DEFERRAL PLAN	1 ST TIME HOME BUYER EXEMPTION
HRM	1.5%	No	No
CBRM	1.5%	No	No
PEI	1% PEI does not charge DTT on properties valued less than \$30,000.	No	Yes. With a signed declaration and if the property value is less than \$200,000. If the property value is greater than \$200,000 then 1% is charged on the full amount.
New Brunswick	.50%	No	No
Newfoundland & Labrador	\$100.00 registration fee plus .4% of the value of the property in excess of \$500.00. This is charged and collected by the Province.	No	No
Manitoba	1 st \$30,000 = 0% \$30,000 - \$90,000 = .5% \$90,001 - \$150,000 = 1% \$150,001 - \$200,000 = 1.5% \$200,000 and higher 2%	No	No
Saskatchewan	There is a land title fee: \$0 - \$500 = no charge \$501 - \$8,400 = \$25.00 charge \$8,401 and greater = .3% of value	No	No
Alberta	They charge a registration fee of \$50.00 plus \$1.00 for every \$5,000 of property value.	No	No

MUNICIPALITY PROVINCE	DEED TRANSFER OR LAND TRANSFER RATE	PAYMENT DEFERRAL PLAN	1ST TIME HOME BUYER EXEMPTION
British Columbia	1% for the 1 st \$200,000 and 2% for the remainder of value	No	Yes. If you are a Canadian citizen, lived in BC for 12 consecutive months prior to purchase, you can get a full exemption if the value of the property is not more than \$425,000 and if the land size does not exceed more than 1.24 acres.
Ontario	1 st \$55,000 = .5% The next \$195,000 = 1% Balance over \$250,000 = 1.5% Anything over \$400,000 and the land contains one or two single family residence = 2% Property purchased in Toronto will be charged the Toronto DTT rate as well.	No	Yes. With a maximum refund of \$2,000. You must be at least 18 years of age. You must occupy the home as your principal residence within 9 months of the date of transfer. The purchaser cannot have previously owned a home, or had any ownership interest in a home anywhere in the world, at any time. If the purchaser has a spouse, the spouse cannot have owned a home, or had any ownership interest in a home, anywhere in the world while he/she was the purchaser's spouse. If this is not the case, not rebate is available to either spouse.
Toronto	1 st \$55,000 = .5% The next \$195,000 = 1% Balance over \$250,000 = 1.5% Anything over \$400,000 and the land contains one or two single family residence = 2%	No	Yes, with a maximum refund of \$3,725. You must be at least 18 years of age. The purchaser must occupy the home as his/her principal residence no later than 9 months of the date of sale. The purchaser cannot have previously owned a home, or had any ownership interest in a home anywhere in the world, at any time. If the purchaser has a spouse, the spouse cannot have owned a home, or had any ownership interest in a home, anywhere in the world while he/she was the purchaser's spouse. If this is not the case, not rebate is available to either spouse.
Quebec	1 st \$50,000 = .5% \$50,000 - \$250,000 = 1% over \$250,000 = 1.5% Property purchased in Montreal will be charged the Montreal DTT rate as well.	No	No
Montreal	\$250,000 - \$500,000 = 1.5% Over \$500,000 = 2%	No	No

DEED TRANSFER/LAND TRANSFER TAX AMOUNT BASED ON AVERAGE RESALE MARKET PRICE



Forecast Summary Halifax CMA Fall 2015									
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	991	678	511	335	-34.4	375	11.9	400	6.7
Multiples	1,763	1,761	1,246	2,150	72.6	1,700	-20.9	1,600	-5.9
Semi-Detached	190	120	70	100	42.9	100	0.0	100	0.0
Row/Townhouse	136	167	112	100	-10.7	100	0.0	100	0.0
Apartments	1,437	1,474	1,064	1,950	83.3	1,500	-23.1	1,400	-6.7
Starts - Total	2,754	2,439	1,757	2,485	41.4	2,075	-16.5	2,000	-3.6
Average Price (\$):									
Single-Detached	426,885	396,929	410,786	420,000	2.2	440,000	4.8	450,000	2.3
Median Price (\$):									
Single-Detached	379,900	364,450	375,450	390,000	3.9	420,000	7.7	435,000	3.6
New Housing Price Index (% chg.)	2.2	2.6	0.3	0.2	-	0.0	-	0.0	-
Resale Market									
MLS [®] Sales	6,046	4,986	4,692	4,400	-6.2	4,500	2.3	4,500	0.0
MLS [®] New Listings	10,160	10,336	10,450	10,550	1.0	10,000	-5.2	9,800	-2.0
MLS [®] Average Price (\$)	268,843	272,893	274,004	280,000	2.6	282,000	0.7	283,000	0.4
Rental Market									
October Vacancy Rate (%)	3.0	3.2	3.8	4.1	0.3	4.3	0.2	4.7	0.4
Two-bedroom Average Rent (October) (\$)	954	976	1,005	1,030	2.5	1,055	2.4	1,080	2.4
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	221,700	222,300	223,300	224,500	0.5	226,000	0.7	227,000	0.4
Employment Growth (%)	1.1	0.3	0.4	0.5	-	0.7	-	0.4	-
Unemployment rate (%)	6.2	6.5	6.1	6.6	-	6.6	-	6.4	-
Net Migration	3,040	2,018	3,332	3,000	-10.0	3,000	0.0	3,000	0.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of REALTORS[®], Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

** Percent change > 200%