



THE LAWRENCES[®] LETTER

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TORONTO'S NEW MUNICIPAL LAND TRANSFER TAX: What Does It Mean For Investors?

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The City of Toronto's much-debated new Municipal Land Transfer Tax (MLTT) on property purchases took official effect on February 1, 2008. If you have any plans to purchase commercial or residential property in the City of Toronto, you must have enough funds to pay both the Provincial Land Transfer Tax (LTT) and the new MLTT.

Certain purchases, for example all transactions exempt from paying the LTT, will also be exempt from the MLTT. Other statutory exemptions are those transactions of a public entity such as a hospital, a university or the City. First-time purchasers of residential property, whether new or resale, will receive a rebate, to a maximum of \$3,725. This rebate does not apply to first-time purchasers of commercial property, however.

How much is the new tax? Like the LTT, the MLTT is calculated in an upward sliding scale, but usually works out to slightly less than the LTT. Commercial purchases attract lower tax overall than residential, due to a slight difference in the scale of calculation.

To apply the formula to actual figures: a residential home purchased for \$500,000 will attract \$5,725 in MLTT and \$6,475 in LTT, for a grand total of \$12,200. A \$2-million multi-unit residential building purchased in the GTA will attract a total of \$72,200 in transfer taxes. Passing on these costs to eventual residents or purchasers will cause prices to rise further.

Is the MLTT amount deductible if the purchase is for investment or business purposes? It is yet another cost of doing business, but whether Canada Revenue will treat it this way, only time will tell.



Further details about the MLTT can be found at <http://www.toronto.ca/taxes/mltt.htm>.

To help ease down the pill, some of the major banks have a limited-time offer to cover the MLTT, or a portion of it, for their clients. Of course, the conditions of the offer are fairly stringent, but it is an option for homebuyers who absolutely cannot come up with an extra \$4,000 or so up front.

What will be the long-term effects of the tax? At this stage, it is impossible to predict. The only certainty right now is that for any would-be purchasers, the new tax will be a significant factor to consider when deciding whether or not to buy in Toronto.

If you have questions about the new tax, Lawrences' Real Estate Group can help you assess your situation before you decide.



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