

## Tax Burden High for Homebuyers

By Cameron Muir, BCREA Chief Economist



How would you like to pay your provincial income tax three times this year, just so you can buy a home? Unless you're a first-time buyer, that's exactly what's in store for you. BC's Property Transfer Tax (PTT) is payable on the purchase price of all real estate transactions in the province. The tax rate is 1 per cent of the first \$200,000 and 2 per cent on the remainder.

Government revenues from the PTT will approach \$1 billion this fiscal year. In the last five years, PTT revenues have doubled. High unit sales and rapidly rising prices have been a financial boon for the government's coffers. While overall government tax revenues increased at an annual compound rate of 4.2 per cent since the 1999/2000 fiscal year, PTT revenues ballooned at a rate of 21 per cent per year. During the same period, the contribution of the PTT to total tax revenue has increased from 1.8 per cent to 5.2 per cent, making

homebuyers an increasingly important—if not critical—source of revenue.

Much ballyhoo has been exerted promoting BC as having one of the most competitive personal tax regimes in the country. Indeed, the province has the lowest tax rate in Canada for a working couple earning \$40,000 apiece. The merits of higher or lower taxes will forever be a topic of public debate but, supposing lower taxes are better, BC is certainly on top of its game—or is it?

One of the stated benefits of low taxation is its pull factor, the propensity to draw migrants to the province in search of economic prosperity. Today, this is particularly important, given historically low unemployment rates and a workforce that's bound to have trouble keeping up with labour demand over the long term. In a nutshell, BC's competing with places like Alberta and Ontario for Canada's most valuable

resource, its people.

So it shouldn't be a surprise that potential British Columbians assess both the advantages and the pitfalls of "the best place on earth." Alberta seems to have no trouble attracting eight times as many interprovincial migrants as BC's water, trees and mountains do. In fact, real estate sticker shock is commonplace for migrants arriving in BC's large cities. BC's nation-leading home prices certainly have the potential to sour the cream that is low personal tax rates.

And then there's the PTT. BC may have the most competitive personal tax regime in the country, but it also has the dubious distinction of the least competitive real estate transfer tax. In fact, if that couple earning \$40,000 apiece bought a home priced at the provincial average, their combined income tax and PTT would equal three income tax returns instead of one. Now, suppose they moved every five years, as many households do: their total combined tax burden would average 40 per cent higher each year than their personal income taxes alone. This scenario would make BC far less attractive from a tax perspective than either Alberta or Ontario.

If tax competitiveness is a real issue, it requires an understanding of the total tax burden on BC households.

### Income and Transfer Tax Burden\*



Source: CREA, BCREA Calculation

\*Provincial basic personal income tax based on a couple earning \$40,000 each. Property Transfer Tax based on Q2 2007 average MLS® price.

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Printed on recycled paper.

ISSN: 1705-3307