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CASE STUDY: PROPERTY TRANSFER TAX (PTT)

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ABSTRACT

'A transfer tax is a tax on the passing of title to property from one person (or entity) to another'. This kind of tax is typically imposed where there is a legal requirement for registration of the transfer, such as transfers of real estate, shares, or bond. Examples of such taxes include some forms of stamp duty, real estate transfer tax, and levies for the formal registration of a transfer.

As we are aware that, real estate industry is at boom (pick) level, PTT is already implemented by many countries and earning high revenue, if state government implements PTT, it will generate high revenue to state governments.

A property transfer tax would allow local government to capture some of the increase in land value each time a property is sold. It is an efficient way of capturing a small percentage of the increase in land value.

How PTT generate revenue for British Columbia- The provincial property transfer tax is budgeted to bring in $900million in revenue for the provincial government in the 2010-2011 fiscal year. The tax is applied to the sale of each property at a rate of one per cent on the first $200,000 in value, and two per cent of the value greater than $200,000. The revenue generated by this tax is very closely correlated with the fluctuations of the real estate market. As real estate values in British Columbia have climbed steadily in recent years, the property transfer tax has become a larger contributor to government revenues.

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The City of Toronto has recently introduced a similar tax called the municipal land transfer tax (MLTT). As of February 2008, the Toronto began to collect the MLTT under the legislative authority given to it by its provincial government under the City of Toronto Act, 2006. The tax is calculated on detached houses at a rate of 0.5 per cent on the first $55,000 in value, rising to 1 per cent of the value between $55,001 and $400,000 and 2 per cent of the value over $400,000. For commercial property and multi-family residential properties, the rates are somewhat lower with the portion over $400,000 taxed at a rate of 1.5 per cent and any value over $40 million taxed at 1 per cent. In the 2009 fiscal year, the MLTT raised $184million, over two per cent of Toronto's $8.7billion operating budget.

Conclusion of Case: As we were aware about that the real estate industry is at boom (pick) level, PTT is already implement by many countries and earning high revenue, if any state governments implement PTT, it will generate high revenue to state governments.

INTRODUCTION:

Meaning of PTT:

A property transfer tax is a tax on the passing of title of property from one person (or entity) to another. In a narrow legal sense, a property transfer tax is essentially a transaction fee imposed on the transfer of title to property.

Property transfer taxes can be levied at the federal, state and local levels, depending on the type of property being transferred. States and local municipalities often tax the transfer of legal deeds, certificates and titles to property, while the Internal Revenue Service (IRS) taxes the value of the property itself through gift and estate taxes. Transfer taxes are usually nondeductible, although they may be added to basis on the sale of securities and/or investment property

Property tax is just one possible mechanism for transferring or sharing revenue. This tax has the advantage of being attachable to property that a local government serves, and therefore reflects the relationship between services provided and the revenue source. The idea that property owners should pay for services provided to their property appears fair. However, the extent to which local government services can be considered as services to property has become tenuous.

A property transfer tax would allow local government to capture some of the increase in land value each time a property is sold. It is an efficient way of capturing a small percentage of the increase in land value.

How PTT Generate Revenue for British Columbia:

The provincial property transfer tax is budgeted to bring in $900 million in revenue for the provincial government in the 2010-2011 fiscal year. The tax is applied to the sale of each property at a rate of one per cent on the first $200,000 in value, and two per cent of the value greater than $200,000. The revenue generated by this tax is very closely correlated with the fluctuations of the real estate market. As real estate values in British Columbia have climbed steadily in recent years, the property transfer tax has become a larger contributor to government revenues.

The City of Toronto has recently introduced a similar tax called the municipal land transfer tax (MLTT). As of February 2008, the Toronto began to collect the MLTT under the legislative authority given to it by its provincial government under the City of Toronto Act, 2006. The tax is calculated on detached houses at a rate of 0.5 per cent on the first $55,000 in value, rising to 1 per cent of the value between $55,001 and $400,000 and 2 per cent of the value over $400,000. For commercial property and multi-family residential properties, the rates are somewhat lower with the portion over $400,000 taxed at a rate of 1.5 per cent and any value over $40 million taxed at 1 per cent. In the 2009 fiscal year, the MLTT raised $184 million, over two per cent of Toronto's $8.7 billion operating budget.

The property transfer tax allows local governments to capture a small return on its investment in infrastructure and services that sustain property values. It also ensures that localized increases in property value can be equalized and shared across the jurisdiction so that all taxpayers benefit. Assessed at the time of sale, this type of tax recognizes that until a property is sold an increase in land value does not translate into an increase in income for many homeowners.

Some critics claim property transfer taxes will deter investment. However, many jurisdictions in North America, including the British Columbia government, have a property transfer tax, and there is little empirical evidence to support claims that such a tax inhibits investment in real property.

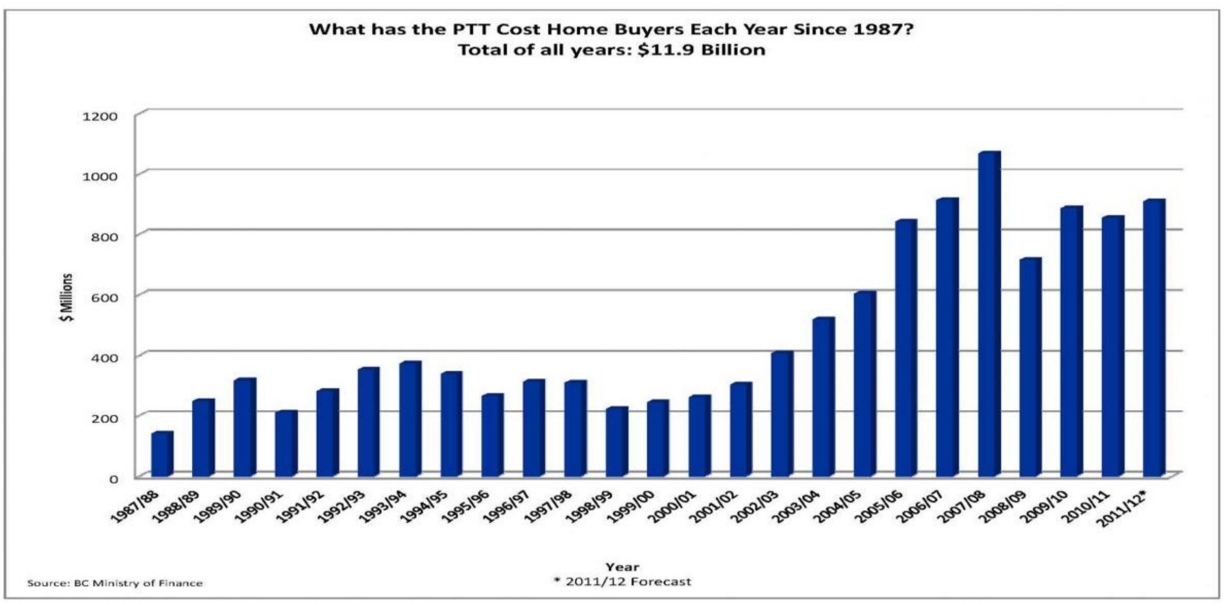
Example of how to calculate PTT:

The amount of tax you pay is based on the fair market value of the land and improvements (e.g. buildings) on the date of registration unless you purchase a pre-sold strata unit. The tax is charged at a rate of 1% for the first $200,000 and 2% for the portion of the fair market value that is greater than $200,000.

For example, if the fair market value of a property is $250,000, the tax paid is $3,000.

Fair market value:	$ 2, 50,000
1% of first $200,000:	$2,000
2% of remaining value:	$1,000
Total Tax Payable:	$3,000

Revenue Generated by British Columbia:



Conclusion:

It is concluded that wewere aware about that the growth of real estate business, the real estate industry is at boom (pick) level, Property Transfer Tax (PTT) is already implemented by many countries and earning high revenue for their local governments, if any state government implementsProperty Transfer Tax (PTT), it will generate high revenue to state governments.