



Proposed Speculation Tax

March 2018

From the BC Budget 2018 materials and Tax Information Sheet 2018-001, the British Columbia Real Estate Association (BCREA) understands that the proposed speculation tax will target foreign and domestic homeowners who pay little or no income tax in BC, and those who own second properties that are not long-term rentals.

The Association received a detailed briefing about the tax and other budget measures from the Ministry of Finance. At their request, we prepared the following questions, concerns and recommendations, all of which will be discussed in future meetings with the ministry—including one with Minister James in mid-April.

Recommendations

1. Homeowners who pay income tax in Canada should be exempt from the speculation tax, regardless of how many homes they own.
2. Homeowners should not be taxed twice. That is, ensure that the City of Vancouver's Empty Homes Tax and the proposed speculation tax do not both apply to the same property.
3. Development properties should be exempt from the tax. These properties are often bought years before they are developed, and the proposed tax would add costs that would be passed on to consumers. Builders and developers could sign declarations regarding their intentions, to ensure such an exemption is used properly.
4. Create incentives for homeowners to make their homes available as long-term rentals, rather than penalizing people who do not rent their properties.

Concerns

1. Lack of information has created uncertainty and is eroding confidence in BC real estate. For example, the proposed tax appears to be misnamed, as speculation is widely understood to be buying and selling real estate within a relatively short period. What has been proposed captures properties that have been owned for many years—in some cases, decades—for personal use rather than speculative gain.

In addition, the objective is not clear. BCREA, real estate boards, REALTORS® and homeowners across the country are interested to see a complete, concise and official summary of what the proposed speculation tax is intended to accomplish, so we can provide appropriate input.

2. Many homeowners in the affected areas will experience negative impacts, including higher taxes and potential decreases in home prices/equity. In addition, many non-British Columbians (and perhaps some from inside the province, as well) will likely have to sell their homes, regardless of how long they have owned them. While this may be one of the government's objectives, the supply created could be more harmful to British Columbians than helpful. For example, vacation homes may not meet the needs or budgets of young families or retirees. About 70 per cent of British Columbians are homeowners, and all homeowners in the affected areas could lose equity if the tax is implemented as proposed.

3. Local economies will suffer the consequences. The proposed speculation tax will likely deter real estate investment in BC, dissuade tourism by reducing the number of short-term rental properties available and could reduce home prices for entire communities, negatively affecting retirement income, consumer spending and employment in the home building industry.

March 26 update

The Government of BC provided an update on the details of the proposed speculation tax, which answered several questions BCREA had:

1. British Columbians who own a second home in major urban areas that is not a qualifying long-term rental or subject to prescribed exemptions will be subject to the speculation tax. The tax rate applied to British Columbians subject to the tax in 2019 will be 0.5% of the assessed property value, a lower rate than the rate applied to other Canadians (1%), foreign investors and satellite families (2%).
2. A long-term rental is defined as a property that is rented out for at least six months of the calendar year in increments of at least 30 days. For 2018, a property qualifies as a long-term rental if it has been rented for three months.
3. The geographic area in which the tax will apply includes: Metro Vancouver, the Capital Regional District (excluding the Gulf Islands and Juan de Fuca), Kelowna, West Kelowna, Nanaimo-Lantzville, Abbotsford, Chilliwack and Mission.
4. There are primary residence exemptions as well as long-term rental exemptions from the proposed speculation tax. British Columbians with vacant second homes in urban areas will be eligible for a non-refundable tax credit which will be applied to offset the speculation tax. The credit ensures that British Columbians will not pay the tax on a second home valued up to \$400,000, and offsets the first \$400,000 on homes with a higher assessed property value. The Government estimates that 99% of British Columbians will be exempt from the tax.
5. Special exemptions from the tax apply to circumstances where the owner or tenant is undergoing long-term medical care or is absent for work purposes, or the registered owner is deceased and the estate is being administered.
6. The Government is considering exempting from the tax homeowners who own a home in a condo where strata rules prevent renting.

The Government of BC news release which announces these most of these updates can be found here <https://news.gov.bc.ca/releases/2018FIN0009-000501>.

Clarity and communication needed

BCREA urges the BC Government to undertake a formal, public consultation on the proposed speculation tax, to ensure the best input and insights are available, and to assure those affected that this measure is being carefully considered from all angles.

In the meantime, the following questions remain unanswered:

1. What proof will be required for to qualify for the long-term rental exemption?
2. Will the City of Vancouver's Empty Homes Tax be eliminated, or some other step taken, to ensure that Vancouver homeowners are not taxed twice?
3. What will be the threshold for BC income tax paid by "satellite families"? Why does the amount of income tax paid by them matter?

4. How will the government track the local economic impact of the tax? Will that data be publicly available?
5. If the government intends to drive down home prices, what is the target? What are the consequences to economic growth, household wealth, employment and tax revenue?
6. Will data on the number of households paying the tax be publicly available?
7. Will only personal income tax be counted, or also corporate?
8. Will the proposed speculation tax honour existing international tax treaties?

Clarity on other BC Budget measures

While the proposed speculation tax produces the most questions, BCREA also has questions about several other measures contained in the budget:

- Will there be a public consultation on the beneficial owner registry? When will it be developed? How will privacy be protected?
- What information does the province think can be gleaned from Multiple Listing Service® Systems? What process will enable the government to demand that information?
- Will there be a public consultation on the database for pre-sale condominium assignments? When will this be implemented?
- When will the Task Force on Money Laundering and Tax Evasion/Avoidance be created? What opportunities will there be to provide input?