

## **POLICY PROPOSAL: B.C. HOUSING AFFORDABILITY FUND**

Housing costs pose a significant challenge for Lower Mainland households. Among the factors contributing to price growth is the inflow of money into the local housing market. We propose a B.C. Housing Affordability Fund (BCHAF) that delivers cash to BC residents, paid for by property owners with limited residential or economic ties to B.C. The BCHAF will make British Columbia a better place to live and work, by making B.C. a less attractive target for investors who wish to avoid taxation or park cash in residential real estate.

### Description and Precedent

The BCHAF will be funded by a new 1.5% property surcharge on residential real estate. The revenues will then be distributed as lump-sum payments to all Canadian tax filers in any area included. The tax would target owners of vacant properties and those with limited economic or social ties to Canada. All other owners will be exempt. The proposed BCHAF contribution structure would provide broader exemptions than those under the Home Owner's Grant, by allowing non-resident landlords and not-yet-landed immigrants with taxable Canadian earnings to claim exclusions.

### Exemptions for Homeowners

Nearly all resident owner-occupiers should be exempt from the surcharge on one of the following bases:

Veterans and disabled persons and those living with them would be exempt, as in the B.C. Home Owner's Grant.

Canadian residents of retirement age would be exempt if they are recipients of Canada Pension Plan benefits or qualify for Old Age Security.

Those who contribute to the local economy will have their BCHAF contributions reduced or eliminated. The BCHAF surcharge would be reduced dollar-for-dollar by Provincial and Federal income taxes paid by all members of the household. For example, the owners of a \$1,000,000 home would face a \$15,000 BCHAF contribution in a given tax year. If this household paid \$15,000 or more in income taxes, they would not have to contribute to BCHAF. If they paid \$10,000 in income taxes, they would owe at most \$5,000 to BCHAF, if not otherwise exempt.

Those who have been part of the local economy for a long time would be exempt. Specifically, tax filers who have claimed their current homes as their principal residence for a significant number of years would be exempt. This would protect homeowners who are long-time residents of their communities, but would not be able to buy in at prevailing prices. The exemption could be a lifetime benefit so that households moving to a different home later in life would remain exempt.

### Exemption for Rental Housing

To provide incentives for rental housing, and disincentives for leaving units vacant, non-occupant investors would only be able to claim exemptions for occupied rental units. Owners of rental properties should be allowed to offset BCHAF contributions based on the rental revenue they report to CRA. This could involve providing credits against the surcharge for gross rental revenue, or setting minimum gross rental revenue levels to claim complete exemption from the BCHAF charge. To accommodate periodic vacancies, landlords might be allowed to average across multiple years. To prevent fraud, exemptions should be denied for leases between family members.

### Implementation

Which jurisdictions should impose an affordability surcharge is a political question. We recommend that the BCHAF be specific to a given locale, with jurisdictions choosing to join. By keeping the taxes paid in and the benefits granted specific to a given jurisdiction, BCHAF would provide the most help to those facing the strongest impacts of vacant units and capital 1 To further protect working homeowners, legislators may want to allow unused income tax credits to cover future years' contributions, and to offer couples where both partners earn moderate incomes a credit to reflect income tax progressivity. To further protect households, all taxes paid by all individuals claiming a tax home at a given address should be credited, whether the payer is on the title or not.

### Inflows on affordability.

For any jurisdiction that participates in the BCHAF, revenues will be distributed as an equal lump-sum amount to all taxpayers in that jurisdiction. Eligibility for receiving the lump-sum payment will merely require filing the regular income tax and benefits return (T1) and being a resident of the jurisdiction.

## Precedent

A total property tax rate of 2% is no higher than in many U.S. jurisdictions, and the BCHAF structure would retain rates under 0.5% currently faced by most households. The difficulty of building new housing units in the Lower Mainland suggests that the property tax share of revenues generated in B.C. should be relatively high, and the income tax burden lower. BCHAF would represent a small step in the direction of tax efficiency, without imposing higher obligations on the vast majority of B.C. taxpayers.

## Economic Impacts

### Estimated Benefit

BCHAF could provide considerable benefits to B.C. residents. Based solely on vacancy data, we estimate the surcharge could provide residents with roughly \$90 million per year in Vancouver alone.

Revenues would likely be greater than this estimate, which is based only on vacant units, because there are likely owners of high end B.C. properties who would not qualify for any of the exemptions to the surcharge listed above. As politicians have emphasized, we lack the detailed data on income and taxes paid to make a precise forecast of potential revenue. An added benefit of the BCHAF program would be to obtain these data.

### Financial Inflows and Vacancy

An additional effect of BCHAF could be an improvement in affordability by reducing the inflow of cash to residential real estate, thus reducing upward price pressure. We doubt that our proposal would have a detectable effect in this way. While a significant surcharge might discourage investment in B.C. housing, the number and composition of immigrants to Canada is largely determined by Federal immigration policy (though B.C. does have an increasingly important role through the Provincial Nominee Program). Given the excess demand for Canadian residency, we expect this proposal to have a limited effect on the inflow of capital with immigrants. Our expectation is that the primary benefit is to provide cash to ameliorate the negative effects of these capital flows on local residents. Implementation of BCHAF would make participating jurisdictions less attractive to investors hoping to invest in real estate without paying taxes. In contrast, it would make B.C. a more attractive place to live and work. Critically, by raising the cost of holding a property vacant, BCHAF would also provide investors with an incentive to rent out currently vacant properties to B.C. residents.

## Conclusion

By taxing activities that make housing less affordable for current B.C. residents, the proposed BCHAF can provide significant benefits to Lower Mainland communities. Creating BCHAF would be a feasible and economically meaningful response to the rising tide of global financial flows into B.C. residential real estate. We have designed BCHAF to maximize the cash benefits available to those who live and work in BC, while creating exemptions to minimize the possibility that such residents would face any new tax burden. 2 An alternative would be to raise funds at the provincial level, and use proceeds to reduce tax rates. This would enhance overall efficiency, but would be difficult to implement when individual municipalities are choosing whether to join. 3 The estimated share of units in the City of Vancouver not occupied by usual residents is greater than it is in other Canadian cities. We assume that this difference in rates reflects investor held units subject to the proposed surcharge. For our calculations we assume these rates are 7.5% for condominium units and 2% among other housing units. If we assume that this rate is the same for both high and low value units, then using B.C. Assessment data and 2015 assessment values, incremental property tax paying into the BCHAF from the City of Vancouver alone would amount to \$90 million per year. 4 Immigration into participating jurisdictions would only increase to the extent that BCHAF makes living in B.C. more affordable, so the net effect could not be to reduce affordability to a representative household.

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