

Policy Analysis, Potential Design and Possible Implementation of a Vacant Home Tax in Toronto

Date: November 26, 2020

To: Executive Committee

From: Chief Financial Officer and Treasurer and Executive Director Housing Secretariat

Wards: All

SUMMARY

This report responds to all previous requests for information identified by City Council with respect to implementing a vacant home tax policy tool in Toronto.

The report presents the findings of a commissioned study by KPMG titled, "A Review of Issues to be considered for the Taxation of Vacant Homes in Toronto" (the Study) to address the public policy rationale for such a tax, potential tax design features, and a jurisdictional review of municipalities that have adopted such taxes.

The report further identifies current housing market conditions and challenges within the context of the COVID-19 pandemic and lays out a recommended path forward for Council consideration.

The public policy rationale features examined include: the impact a vacant home tax has had on the supply of affordable housing and rental vacancy rates in other jurisdictions; a comparison of a vacant home tax with other strategies used by other jurisdictions to increase the supply of affordable housing and rental vacancy rates, e.g. incentives for purpose-built affordable rental apartment units; the nature and trends in the Toronto housing market that perpetuate the occurrence of vacant homes and the duration of such vacancy; the extent to which vacant homes are negatively affecting the supply of affordable housing or rental vacancy rates in Toronto; and whether a vacant home tax could achieve the objectives of increasing the supply of affordable housing and increasing rental vacancy rates in Toronto.

The potential tax design features and possible implementation of an effective and efficient vacant home tax program includes: the definition of a vacant home, the means of identifying vacant homes; possible exemptions, amount per property to be levied, staffing and/or external consultants required to implement a vacant home tax, hardware and software costs, effective enforcement and timing required to successfully roll out a vacant home tax.

The Study contains a comparative analysis of the experiences and results of similar taxes implemented in Vancouver and Melbourne. Although conditions in the Toronto will require a unique approach, planning will benefit from such detailed policy testing.

The Study was substantially completed in March 2020 and provides insight into Toronto's housing market and the conditions that gave rise to the phenomenon of vacant homes and the resulting public policy objectives associated with the legislative authority to tax such units.

The study of the vacant home phenomenon, market conditions, policy rationale and practicality of steps to implement such a tax have all been affected by the COVID-19 pandemic and the associated public health restrictions on all aspects of life in 2020. The KPMG study has been updated as at November 2020 (the Study Supplement) to include COVID-19 impacts on the topics discussed in the study.

The Study Supplement notes that although current real estate market conditions exhibit increased rental availability and downward trending rent prices, there is still much uncertainty in long-term projections for the market. Long term housing affordability and availability challenges will most likely persist into the future, and a VHT can be a helpful tool to address these challenges.

Thus, moving forward with the tax at this time must be balanced with considerations of urgency of need, market conditions that may have already affected the supply of housing and the practical ability to carry out the necessary administrative steps and public relations campaign to implement the tax. As the effect of the tax is to change the behaviour of certain homeowners who leave their homes unoccupied, sufficient notice and time to adjust such vacancy (e.g. sell or rent out homes) needs to be built into the implementation plan.

Economic and fiscal policy doctrines normally dictate that governments should not implement new forms of taxation during contractionary market conditions. Notwithstanding the interplay of current economic conditions, vacant home taxes are designed primarily as a housing policy tool intended to affect the behaviours of owners of vacant homes to sell or rent out such homes and thereby make available homes for occupation, rather than a revenue generating tool for a municipality.

The Study provides an examination of the definition of what constitutes a vacant home for taxation, possible exemptions as well as identification methods, tax rates and potential impacts and effectiveness measurement means. The cornerstone of such a tax is the identification of vacant homes by way of a universal declaration method as proposed in this report, whereby every residential property owner in the City would be required to make an annual declaration as to the occupancy status of their home for the preceding year.

The Study provides a plan for the necessary steps to implement such a tax as directed by City Council and the related administrative and operational infrastructure components required to operate, collect, enforce, process appeals on such a tax. Costs estimates of implementation and potential conversion rates and tax revenue projection ranges are also provided.

In light of its key findings, the Study lays out recommended actions to be taken to move this new policy tool forward for Council consideration including future staffing and resource needs with a detailed report back on key design features by the end of Q2 2021.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer and Executive Director Housing Secretariat recommend that:

1. City Council direct the Chief Financial Officer and Treasurer to undertake the following steps to develop a vacant home tax program and to report back with a recommended taxation, collection, exemptions and enforcement design for a vacant home tax by the end of Q2 2021 for implementation commencing in the 2022 taxation year:

- a. Establishing a dedicated interdivisional project team to lead the implementation of a VHT;
- b. Engaging with Provincial staff to develop any necessary regulations;
- c. Engaging with City Legal to develop the necessary by-law to implement a VHT
- d. Engaging with CIT and others to build the necessary technical infrastructure to administer a VHT including a universal declaration system, compliance/audit database and payment system;
- e. Undertaking public education and awareness campaigns to ensure homeowners are aware of the tax, applicability of the tax and requirement to declare on an annual basis;
- f. Form an audit and compliance team to develop audit procedures and protocols, review annual declarations, identify non-compliance with the tax and create annual reports on the impact of the tax; and
- g. Studying the creation and governance of an external advisory team consisting of industry experts and academic institutions who can advise the City of monitoring, evaluation and implementation.

2. City Council authorize a budget allocation of \$5.0 million in 2021 and \$6.0 million in 2022 to fund the estimated start-up costs associated with this tax program.

FINANCIAL IMPACT

This report includes, upon Council direction, recommendations to undertake detailed design work and developing supporting systems to effect the creation of a vacant home tax by-law and taxing regime, with a report back, including a tax by-law, to Executive Committee by the end of Q2 2021.

As outlined in this report, it is estimated that full program start-up costs could be in the range of \$10 – \$13 million over a two year period. A \$5.0 million budget impact in 2021 is requested in the City's operating budget. Remaining funding of approximately \$6.0 million will be requested for 2022.

The intent of this tax program is to influence any vacant homeowner to occupy or rent out their dwelling for at least six months per calendar year, or else pay this tax.

The number of vacant homes in Toronto is unknown at this time and will not be known until after full implementation and performance of the tax declaration and audit process planned for early 2023.

However, using metrics from Vancouver's collections on a similar tax as a proxy for Toronto, if 1 percent of Toronto's housing stock is vacant and subject to the tax, at a 1 percent tax rate on average Toronto CVA, could yield \$55 to \$66 million in (gross) tax revenue per year.

The prevalence and reasons for homes being left vacant in Toronto may have been affected by the COVID-19 pandemic and its impact on the housing market. Revenue projections may similarly be affected in ways that cannot reasonably be estimated.

Costs of administering the program would be funded from related tax revenues and any net surplus of revenues could be dedicated to affordable housing initiatives.

DECISION HISTORY

On April 20, 2017, the Ontario Government announced its sixteen-point Fair Housing Plan intended to help more people find affordable places to live, increase supply of residential units, protect buyers and renters, and bring stability to the real estate market. <https://news.ontario.ca/mof/en/2017/04/ontarios-fair-housing-plan.html>

On May 17, 2017, Bill 127 - Stronger, Healthier Ontario Act (Budget Measures), 2017, received Royal Assent in Provincial Legislature, which amended and repealed various Acts to implement the Ontario Government measures contained in the 2017 Ontario Budget, including the sixteen-point Fair Housing Plan. Associated amendments to the

City of Toronto Act were subsequently proclaimed into force on January 1, 2018, providing the City with authority to implement a tax on vacant residential units. <https://www.ontario.ca/laws/statute/06c11#BK401>

On July 4, 2017, City Council adopted EX26.4 "Implementing a Vacant Home Tax in Toronto" which directed staff to undertake public consultation on the potential implementation of a tax on vacant residential units, identify possible public benefits of such a tax, and to consider possible administrative approaches to identifying vacant units. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX26.4>

During the summer and early fall 2017 staff conducted public consultations on a potential vacant home tax in Toronto and subsequently presented the findings in a staff report to Executive Committee. On April 19, 2018, Executive Committee received the report EX 33.5 "Public Consultation Results and Update – Vacant Home Tax" which directed staff to undertake further research on a vacant home tax program and report through Executive Committee, as appropriate, following the start of the 2018 to 2022 term of Council.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX33.5>

On November 14, 2019, Executive Committee directed staff to bring forward a report with the 2020 Budget on Implementing a Vacant Home Tax in Toronto including: specific information on the consultation process to date; the public policy benefits as assessed to date; the potential tax design features of a vacant home tax; and an assessment of the Vancouver approach.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX10.7>

At its meeting of December 16-18, 2019, City Council adopted the HousingTO 2020-2030 Action Plan, and its recommended actions as the framework to guide the City's efforts over the next 10 years to strategically and effectively address housing needs for current and future residents. The report references the City's work on exploring a vacancy home tax and how it could help ensure that the existing rental stock is used efficiently. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.PH11.5>

On February 19, 2020, as part of the consideration of the 2020 Capital and Operating Budgets, City Council directed staff to report to the April 2020 Executive Committee meeting with various key policy analyses of a vacant home tax as well as a potential design and possible implementation of an effective and efficient vacant home tax program and with recommendations on key features, should City Council wish to proceed with a vacant home tax.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX13.2>

COMMENTS

"A Review of Issues to be considered for the Taxation of Vacant Homes in Toronto" (The study) was commissioned by the City's Finance and Treasury Division to provide independent research and analysis to inform the City's consideration of implementing a vacant home tax.

KPMG was selected as the preferred proponent from a competitive bid process in autumn 2019. The results of the KPMG Study were intended to inform the development of a taxing program if so directed by City Council to proceed.

The study was substantially completed in March 2020 just as emergency measures were enacted surrounding the COVID-19 pandemic. The study of the vacant home phenomenon, market conditions, policy rationale and practicality of steps to implement such a tax have all been affected by the COVID-19 pandemic and the associated public health restrictions on all aspects of life in 2020. The KPMG study has been updated recently to include a COVID-19 supplement with a current state analysis on the topics discussed in the study.

From a theoretical perspective, economic and fiscal policy doctrines dictate that governments should not implement new forms of taxation during contractionary market conditions, so this should be examined carefully.

The Study Supplement notes that although current real estate market conditions exhibit increased rental availability and downward rent prices, there is still much uncertainty in long-term projections for the market. The growth of the affordable rental housing and homelessness crisis has been decades in the making and it will take a significant shift in housing supply into order to bring the cost of rental homes back in line with average incomes. Despite the City's ambitious goals of 40,000 new affordable homes over the next ten years, long term housing affordability and availability challenges will most likely persist into the future, and VHT can be a helpful tool to address these challenges.

Thus, moving forward with the tax at this time must be balanced with considerations of urgency of need, market conditions that may have already affected the supply of housing and the practical ability to carry out the necessary administrative and public relations campaign necessary to implement the tax. As the effect of the tax is to change the behaviour of certain homeowners who leave their homes unoccupied, sufficient notice and time to adjust such vacancy (eg sell or rent out home) needs to be built into the implementation plan.

The merits of a vacant home tax policy tool included in the Study and Study Supplement, attached as Appendix A to this report, provides all of the requested information from City Council as follows:

Public policy rationale– conditions and purpose of tax, desired outcomes and potential effectiveness of this tool in increasing the supply of affordable housing and increasing the rental vacancy rate – as directed by City Council

Potential tax design features– definitions, exemptions, implementation plan, operational support

Jurisdictional benchmarking– experiences from municipalities with vacant home taxes

Implications for Toronto- Potential qualitative and quantitative impacts of VHT in Toronto – impact on market, costs, revenues, conversions, measuring effectiveness

COVID-19 and Market Update – Housing market data and commentary on current and potential future conditions arising from COVID-19 pandemic and impacts on implementation of a vacant home tax.

Public policy Rationale

Housing supply and availability:

Toronto is one of the fastest growing cities in the world. The population in Toronto is projected to grow by approximately 36% by 2041, with a growth in households projected to be 32.5%.

The population growth rate implies that Toronto requires approximately 50,000 new housing units annually to meet demand, while currently falling short at approximately 40,000 annually.

Much of Toronto's housing stock operates in an open market that experiences the dynamic effects of economics in changes to supply and demand. In contemporary times these market effects have produced sharp escalations in the price of housing and rent which have outpaced the earning power of many Torontonians. Further, the Toronto housing market relies heavily on the secondary rental market (private owners renting out condos/homes) in addition to the supply of purpose built rental homes. Purpose built rentals were experiencing very low vacancy rates (~1%), which indicated that more people were seeking rental housing than the supply of such housing.

Simultaneously, Toronto has become aware of a phenomena, although not readily quantifiable, that many habitable housing units are sitting largely unoccupied or fully vacant for various reasons.

The HousingTO 2020-2030 Action Plan, approved by Council in December 2019, sets a target of approving 40,000 rental homes over the next 10 years, including 18,000 supportive housing units. It also identifies the need to protect existing tenancies through eviction prevention measures, acquisitions and retrofits. Achieving these aggressive goals requires financial and policy tools from all three orders of government plus support from the non-profit and private sectors.

To-date, the City is on track to meet its early targets under the HousingTO 2020-2030 Action Plan. Despite the onset of the COVID-19 pandemic in March, the City took several actions, including but not limited to, implementing modular supportive housing which will deliver an initial 100 permanent homes in the fall (plus another 150 homes in spring 2021); launching phase two of the Housing Now Initiative which will activate 6 new City-owned sites for affordable housing (a total of over 4,500 affordable rental housing units on 17 City sites will be developed); and moving 1,500 people from shelters into permanent housing through housing benefits. Including the Housing Now and Modular Housing Initiatives, there are over 65 projects currently in the City's affordable rental development pipeline which will add almost 9,000 new permanent affordable rental homes once completed.

The City is also taking steps to preserve existing housing by assisting tenants stay in their homes through eviction prevention measures and the development of material on tenant rights.

As a result of the COVID-19 pandemic, the City has identified the need to expedite the delivery of the HousingTO 2020-2030 Action Plan to increase access to good quality, safe and secure affordable housing for marginalized and vulnerable residents who have been disproportionately impacted by the pandemic.

Delivery of HousingTO 2020-2030 Action Plan is expected to cost \$23.4 billion over the next ten years and requires an approximate one-third contribution by the three orders of government. The adoption of a VHT would be instrumental in strengthening the City's ability to fund its share of the HousingTO 2020-2030 Action Plan and to better support vulnerable and marginalized residents.

Toronto Housing Market Conditions:

Pre COVID-19

Housing prices in Toronto had reached record highs and were expected to continue to grow year-over-year for the foreseeable future. Between 2006 and 2017, rent for condominium units has increased by over 30%, while average home prices grew by over 130%.

Between 2006 and 2016, the median household income grew by 25%, or approximately 2.2% per year. Meanwhile, median monthly payments for rented dwellings increased by 109%, or approximately 7.7% per year. As the cost of housing continues to increase more rapidly than average income, so too does the affordability gap.

COVID-19 Effects and Current market

With the onset of the COVID-19 pandemic the subsequent impacts have been observed in the market:

- Home sales were immediately affected by the pandemic with a sharp fall in demand –home sales in Toronto declined through April, but rose again beginning in May and set new record sales levels from September – October 2020
- Home prices in Toronto were not as affected by the pandemic as sales volumes, with average prices decreasing by as much as 7.8% (on a year-over-year basis) across several major home types in April and May 2020, but then continuing to increase each month since.
- Sales growth has been primarily for ground-oriented market segments, as sales for condominiums have lagged behind those for detached, semi-detached, and townhouse home types.

- The market for rentals and short-term rentals has also been particularly hard hit as a result of COVID-19. The availability of short-term rentals has also been affected by the new regulations introduced by the City of Toronto, designed to limit their use to properties where there is a primary resident living in the home.
- The number of housing units available for rent has increased throughout the pandemic. The number of condominium apartments listed for rent was up by 31.9% in Q1 2020, 42% in Q2 2020, and 113.9% in Q3 2020 (on a year-over-year basis).
- A survey of 'newer purpose-built rental apartments' (i.e., those that have been completed in the GTA since 2005) reported a vacancy rate of approximately 2.4% in Q3 2020, three times higher than in the previous year.

A full market analysis with references is included in the Study and Study Supplement attached as Appendix A to this report. Generally KPMG noted that there is still a lot of uncertainty in long-term projections for the overall real estate market but the current affordability and availability challenges will most likely persist into the future, and VHT can be a helpful tool to address these challenges.

Prevalence of Vacant homes in Toronto:

It is difficult to identify vacant homes as such data is not tracked by any government agency and inherent privacy legislation and principles govern prudence over any such purpose for collecting such data.

Aggregated and anonymized data on water or hydro-electric utility usage can be used to study the occurrence of low consumption households. In Toronto's case, it was estimated that approximately 9,000 to 27,000 household water accounts had extremely low to very low consumption volumes, although this statistic is not conclusive of all residential units, as condominium buildings are bulk metered and as such individual units cannot be measured. As a reference point there are approximately 789,000 residential homes in Toronto.

Furthermore, such data can only serve as a proxy for the number of vacant homes and would not compensate for homes that may have extremely low consumption behaviour, nor homes left vacant for a number of reasons that might qualify for legitimate exemptions.

In a similar vein there is no current valid way of tracking the duration of vacant periods for a given home. Often homes may be left vacant for various reasons on a temporary one-time basis that may or may not fall into various exemptions as described later in the report. Other vacancies may be more continual in duration and would be those types targeted by this tax.

Vancouver's empty home tax, requires declarations of all homeowners as to their occupancy status for a preceding year (e.g. left vacant for more than one-half of the year) in order to form a valid and defensible approach to quantifying the number of

vacant homes. Further, with this approach Vancouver can track the duration of homes declared vacant for taxation over time. Results of the finding of the first two years of Vancouver's tax are included later in this report.

Purpose of a VHT:

In seeking ways to address the housing market disparities between the lack of rental housing on one hand and readily available empty homes on the other, housing policy makers sought a tool that could be used to encourage the conversion of units that are being held vacant into ones that are occupied.

The tool that was conceived is a vacant home tax. A vacant home tax is a tool that has the ability to change the behaviour of owners who leave their homes empty for long durations of time (typically more than one-half of a calendar year) by way of occupying the home and avoiding the imposition of the tax, or else being required to pay the tax for not occupying the home.

The effect of the tax in the marketplace is that of a signal that housing stock and supply is important for people as homes, and not primarily as a buy-hold speculative commodity without any public regulation.

The prime objective of the tax as a tool is to reduce the prevalence of residential properties left vacant that might otherwise be used to increase housing availability and affordability. The tax could effectively get more people into rental homes in a short time horizon, but as a secondary outcome, the tax imposed on those who do not choose to occupy their homes, provides some revenue to the City, that net of costs, could fund additional affordable housing initiatives.

The originating authority for a vacant home tax from the beginning of its policy path under Ontario's Fair Housing Plan of 2017 was to *encourage property owners to sell unoccupied units or rent them out, to address concerns about residential units potentially being left vacant by speculators.*

At an optimal rate, the tax will create a cost high enough that it leads to a property owner choosing either to sell or rent the home, while not creating an undue burden on owners who have to pay the tax.

The desired effect of the tax is that homeowners either continue to occupy their homes, or change their behaviour of leaving homes vacant as the case may be, in order to avoid incurring the tax.

For those who choose to leave their homes vacant then the tax will be assessed and levied with net tax revenues (less administrative costs) being directed to the City's affordable housing initiatives.

Profile and Market motivations of a vacant homeowner:

There are a number of reasons why homeowners may either consciously or consequentially leave their dwelling unit vacant for the majority of time.

The study notes that from anecdotal evidence and economic reasoning some owners are leaving homes vacant to speculate on gains from market price appreciation. In this regard the home is treated as a commodity or as a storage of wealth and renting the property out is not financially necessary for the owner.

In other cases, extended absences from residing in a dwelling may result from work or study obligations, recreational lifestyle, such as winters away in southern climates, or summers away at cottages.

Another significant potential source of homes left vacant for substantial periods of time are from units being used and offered for rent as short term rentals (STR). Under a separate policy initiative, the City is in the process of regulating such rental, and most importantly restricting the rentals to principal residences.

Conversely, homes that do not meet primary residency requirements would not be permitted to be rented out under such short term platforms. It is expected that any such homes in the marketplace, effectively vacant homes as they are not rented out on a lease of at least 28 days per month for at least 6 months per year, could either be converted to longer term rentals or be sold by the owner. In this regard the effects of the STR by-law will likely assist in reducing the number of vacant homes and increase the supply of rental homes in the marketplace.

Further, as noted, from the increase in the number of condos offered up for rent in late 2020 it could be inferred that a portion thereof could have been previously held vacant, and was being previously used as STR.

Furthermore, there are several reasons why, based on owner circumstances, that a home may become unoccupied for extended durations, such as pending sale and ownership change, major renovations, extended medical care or death.

For these reasons, municipalities with vacant home taxes have defined certain exemptions from the tax on the following grounds.

Exemptible vacancy criteria:

- Strata restrictions – building covenants that prohibit rental
- Medical care or recent death of homeowner
- Property uninhabitable
- Construction
- Recent sale or transfer

As a corollary therefore, non-exemptible vacancy reasons:

- Liquidity
- Aversion to becoming a landlord
- Wear and tear of tenants
- Seasonal, recreational or occasional use
- Inertia

Effect of vacant homes on supply of affordable housing and rents:

City Council specifically requested information concerning the extent to which vacant homes are negatively affecting the supply of affordable housing and rental vacancy rates in the Toronto.

KPMG notes that calculating the precise impact of vacant homes on Toronto's housing supply and affordability is not possible given the range of potential market variables and lack of available data.

In theory, according to supply and demand economics as the supply of a good decreases with no change in demand, the price that can be charged for that good increases. As vacant homes have a negative impact on the available housing supply, there is likely some upward price pressure on housing prices in Toronto due to the presence of vacant homes.

In practice, the overall extent to which vacant homes are impacting the supply of affordable housing and rents depends on housing segment factors such as the types of homes being left vacant, their market price, and overall demand for homes of that type.

From the Vancouver experience, many of the homes taxed as vacant were single family homes or condominium units that had an assessment value significantly higher than the overall average for those types of homes. These homes would not be categorized as affordable housing units.

However, again in theory converting such units from vacant to occupied could produce an effect of improving housing choice and mobility throughout various housing types and price ranges.

Will a vacant home tax increase the supply of affordable housing and rents:

Following on the previous theme, City Council also specifically requested information concerning whether a vacant home tax could achieve the objectives of increasing the supply of affordable housing and increasing rental vacancy rates in Toronto.

Again at this point the City does not possess data on the number of vacant homes nor can it draw direct inferences on the impacts. KPMG suggests that following the implementation of the tax, the City should rely on available data gained through administering the tax to conduct analytics to review the impact. The data should demonstrate that the tax is achieving its stated purpose. The tax can be modified or adjusted based on any insights.

The effect of such a policy tool will likely to be similar to Vancouver and results noted earlier in the report as to the reduction in the number of vacant homes, rise in number of condos for rent could reasonably be expected. As in Vancouver, it could result in many of the vacant homes transitioning to the occupied market not being in the low and mid-range market rental housing segment of the housing continuum.

Again as noted in the housing market update, COVID-19 appears to have produced similar market changes to put downward pressure on either or both the effect of holding vacant homes and monthly rents, although such conditions may not persist once pandemic conditions are overcome.

However, in broader terms and through measures like the STR and a proposed vacant home tax, transitioning vacant homes to occupied homes, would likely improve housing choice and affordability for a number of Toronto residents.

It will be important to monitor and measure the effectiveness of the tax on its impacts on housing availability, affordability and the rental vacancy rates. This topic is discussed later in this report.

Potential Tax Design features

Definitions:

The most important originating point of reference for this policy tool is predicated on how both "vacant" and "home" are defined for taxation purposes. In those municipalities that have implemented such taxes, the following definitions have been established.

Table 1: Key Tax Design Definitions

Term	Vancouver Empty Homes Tax	Melbourne Vacant Residential Land Tax
Vacant	Properties are considered vacant if they have been unoccupied for more than 6 months during the preceding calendar year.	Properties are considered vacant if they have not been lived in for at least 6 months (collectively) of the preceding calendar year. The occupation does not need to be by the same occupant or for a single continuous period.
Home	A residence is considered a “principal residence” if it is the place in which an individual usually lives, makes their home, and conducts their daily affairs. This is the place where the individual receives their mail and pays their bills from, including utility bills.	Land that is able to be used solely or primarily for residential purposes, such as a home or an apartment.

In Toronto's case the enabling Provincial legislation permitting the City to implement a vacant home tax requires regulations that define a vacant unit. Similar to Vancouver and Melbourne, a minimum 6-month occupancy period within a 12-month calendar reference year would be recommended (or suited) to Toronto. This period of time acknowledges several life circumstances, as noted earlier, for individuals who travel for work, or spend extended periods of time outside of Toronto.

Other parallel factors used by other government agencies that limit extended absences may serve as precedent. For example, in order to maintain OHIP coverage, an individual may be temporarily outside of Canada for a total of 212 days (almost 7 months) in any 12-month period, as long as their primary place of residence is still in Ontario.

Whereas for Vancouver, BC medical services plan coverage permits up to 6 months outside of the country which matches with Vancouver's EHT occupancy minimum threshold. Therefore if Toronto was to select a minimum 6 month occupancy period, this requirement would be slightly more restrictive than the OHIP coverage threshold.

Exemptions:

There are a number of known circumstances as to why a home may be left vacant for more than 6 months in a calendar year that could merit exemption from taxation under a vacant home tax program.

Similarly, the enabling Provincial legislation permitting the City to implement a vacant home tax requires regulations prescribing persons and entities who are not subject to the tax.

Looking again to those municipalities that have implemented such taxes, the following exemptions to the tax have been established:

Table 2: Vacancy Exemptions

Vancouver Empty Homes Tax	Melbourne Vacant Residential Land Tax
Major home renovation requiring vacancy Resident has been committed to a long-term care facility (for no more than 12 months) Rental restrictions or prohibitions in place for the property Transfer of 100 percent of the legal interest in the property was registered in the Land Title Office Court order prohibits taking up residence in the property Use of the property for rental purposes is curtailed due to factors such as size limitations Property belongs to the recently deceased	Change of ownership during the year Property became a “residential” property during the year Property is a holiday home for a minimum of four weeks in a year The property is used and occupied for work purposes by the owner for at least 140 days Significant renovations to the property (lasting no more than 2 years from date of building permit) Property forms part of an estate for the recently deceased

Many of the above exemptions could only be applied for one year and not on an ongoing basis, such as in the case of a recent death. Thereafter, the property would be subject to the tax.

Ongoing monitoring of the tax and various exemptions will inform the efficacy and potential circumvention practices to the tax exemptions.

Identification of Vacant units:

KPMG notes that the primary challenge to implementing a vacant home tax is the process of identifying which residential units are truly unoccupied for greater than allowable timeframe within a reference period.

Only after such identification of vacant homes, can the tax be levied and the desired outcomes can begin toward achievement. While there are potentially several methods, the most effective, efficient and practical in the Toronto context appears to be a decision between the two methods employed across the Vancouver and Melbourne experience:

- **Universal declaration** – where all residential property owners are required to make a declaration – choices of occupied, vacant, vacant with exemption; and if no declaration is made, the property is deemed vacant
- **Self-identification** – where only residential property owners with vacant properties are required to make a declaration

The full descriptive nature of the two main methods are described by KPMG as follows:

Universal declaration:

Under a universal declaration approach, declarations are likely to be required annually. Property owners would thus be required to declare the occupancy status of their property for the preceding calendar year. Failure of an owner to declare their property's status after the respective notice period would result in the property being considered vacant by default, which would then trigger liability for the vacant home tax. It is believed that the potential for incurring the tax for non-reporting should be sufficient incentive to ensure the declaration is made by the property owner. In addition, substantial penalties could be in place to act as a deterrent to property owners that might consider making false declarations. This approach has been applied in Vancouver since its implementation of an Empty Home Tax in 2016.

Self-identification:

Under a self-identification approach, property owners are expected to self-identify vacant units to municipalities for the purpose of determining liability for the vacant home tax. Unlike the universal declaration approach, the self-identification approach assumes that properties are occupied unless declared as vacant. However, similar to the universal declaration approach, significant penalties would be in place to act as a deterrent to owners of vacant properties that may be tempted to not self-identify. This approach has been applied in Melbourne, Australia since the Victorian government implemented a Vacant Residential Land Tax in 2017. Based on conversations with observers of the Melbourne Vacant Residential Land Tax, it was identified that a major limiting factor to the effectiveness of the tax was using a self-identification method. Observers have suggested that despite the high penalty, with relatively minimal levels of enforcement, the tax has not been an effective way of reducing the number of vacant homes or increasing tax revenue.

The above referenced types of declaration can be further differentiated by their default positions if no action to declare is taken by a homeowner.

Both methods commonly rely on audit and compliance functions to enforce the applicability of the tax. In the case of the universal declaration the audit function would need to assess whether false occupied declarations were being made concerning homes that in reality would fall into the vacant definition of the by-law.

Alternatively, in the case of the self-declaration method, the audit function would assess whether homeowners of vacant homes failed to properly make the self-declaration. Fees and taxes due serve as penalties under both methods.

KPMG has examined the advantages and disadvantage to these methods as applied in Vancouver and Melbourne:

Table 3: Vacant Unit Identification Methods

Approach	Advantages	Disadvantages
Universal declaration	<p>Individual property owners are more directly accountable (They must claim occupancy to avoid the tax)</p> <ul style="list-style-type: none"> — Larger dataset of responses allows for additional analysis — Lower evasion rate 	<p>Higher administrative effort, with significantly more forms to be processed</p> <ul style="list-style-type: none"> — More intrusive (All taxpayers must respond) — All homeowners must be aware
Self-Identification	<p>Lower administrative effort</p> <ul style="list-style-type: none"> — Less intrusive to public 	<p>Owners can more easily claim ignorance of obligations</p> <ul style="list-style-type: none"> — Higher risk of avoidance — More education/public awareness required to ensure compliance (Response dependent on taxpayers taking the initiative and knowing that they have an obligation) — Higher level of enforcement required

Preferred Identification method

Universal declaration

In order to enable the City to identify the most vacant homes in a timely and accurate manner, a universal declaration by all residential property owners would be an appropriate method. It will also likely to produce the largest degree of participation from residential property owners, and therefore the greatest number of housing conversions, while also bringing in the highest revenue for the City. By contrast, a self-identification method is preferred if a primary objective is minimizing the administrative burden on home owners.

Staff do note that much more public awareness is required as to having to make the declaration and must be carefully positioned as this form of billing is often referred to as negative or opt out billing. Persons not wanting to be billed the tax must opt out as being occupied and failure to declare will result in being billed the tax.

Setting the Tax Rate and Levying the Tax

Once more, the enabling Provincial legislation allows that the City may, by by-law, impose a tax in the City on the assessed value, as determined under the Assessment Act, of vacant units that are classified in the residential property class and that are taxable under that Act for municipal purposes. Such a by-law must state the tax rate and must state the conditions of vacancy that, if met, make a unit subject to the tax.

In setting the rate, consideration should be given to the purpose of the tax which is to reduce the prevalence of residential properties left vacant that might otherwise be used to increase housing availability. At an optimal rate, the tax will create a cost high enough that it leads to a property owner choosing either to sell or rent the home, while not creating an undue burden on owners who have to pay the tax.

Looking once more to those municipalities that have implemented such taxes, the common tax rate of 1% of property value was selected as the initial tax rate. In the Toronto context, it would equate to a value higher than the current property tax burden. Possible reasons for the standard 1% rate may have included the ease of use of such a rate and the opportunities to further evaluate and adjust if necessary should the balances between sufficiency to change behaviour and excessiveness/circumvention of the tax are maintained.

In the Toronto context, if proceeding with the tax, setting the tax rate at 1% of CVA, and building in regular reviews of the rate, appears to be a prudent course of action.

Implementation:

Given that Provincial enabling legislation exists, pending any related regulations, should City Council consider moving forward on implementing a vacant home tax, the following key actions will be necessary.

KPMG notes that when considering the design and implementation of the tax, the associated costs have two main components: start-up costs and then ongoing costs of operation. Based on the experience in Vancouver as well as Toronto's own experience with implementing new taxes, the City would have to ensure that it has the following requirements in place:

- An interdivisional project team, including Finance, Legal and Housing Secretariat staff
- Business support
- Development of a payment and reporting system
- Intergovernmental stakeholder management
- Public awareness campaigns
- Technical and professional services
- Hardware and software costs

Costs – staffing, systems – start-up

In analyzing Vancouver's costs and potential scaling to Toronto's size, KPMG estimated start-up costs for Toronto of approximately \$10-\$13 million. These costs would likely be incurred over the course of the implementation period.

A significant amount of time will be required for refining the public policy and by-law and regulation work required to implement the VHT. Public consultation, Council decision(s) regarding the appropriate rules and regulations for the tax, and the drafting of legislation will all need to take place before the implementation can begin. Additionally, based on consultation with City staff, implementation of the VHT would likely entail using the period through 2021 to address policy and planning issues and to start the implementation of the required systems.

Based on the above, it is assumed that the by-law will be in place by January 1, 2022. Thus, 2022 would be the first year that the tax would apply, with the City conducting education and informing home owners at the end of 2021 and throughout 2022. Home owners would then be required to make declarations in early 2023, with billing occurring one to two months thereafter. It should be noted that the legislation requires an annual by-law.

During the implementation process, regular communication and public engagement would be required. Public awareness campaigns would have to be run throughout the reference year, informing the public of the upcoming changes to their taxes. Inserts in utility bills and official City correspondence, along with radio, television, and other media advertisements would be appropriate. Campaigns would be required to inform owners of the intent of the VHT, as well as of new regulations regarding vacant homes. These campaigns would also be required to run throughout the initial taxation year, to remind property owners of the application of the VHT on vacant properties. The City should work with groups such as the Toronto Regional Real Estate Board, Canadian Real Estate Association, individual condominium boards, and Condominium Authority of Ontario to ensure the impact of the VHT is communicated and understood.

Potential timeline

Despite current pandemic related market effects, it is expected that Toronto's housing market will return to past historic growth conditions. In that case Toronto residents seeking to own or rent a place to live will experience significant challenges with low vacancy rates and high property values. A vacant home tax aimed at addressing housing affordability and availability issues in Toronto would need to be implemented in a time appropriate manner if it is to achieve desired results. However, if the City were to rush its implementation, it risks communications and public education challenges, such as being able to effectively inform residential property owners about their declaration obligations and other implications.

A reasonable timeline would balance the urgency of the public policy objective with the necessary administrative and operational preparations required. For indicative purposes, the City could spend the 2021 calendar year developing internal capabilities, preparing the City's by-law and co-ordinating with the Province on the development of

any regulations. Thus, the year 2022 could then be the first year the tax would apply, with the City conducting broad-based public education activities (e.g., strategic communications, public engagement, advertising, website) to inform home owners throughout 2021-2022. Home owners would be required to make declarations in early 2023 and billings would be sent one-to-two months later, with any resulting revenues starting in 2023.

Key implementation steps and timeframes are illustrated in the following table.

Table 4: Implementation Steps and Time-lines

2021	2022	2023
Tax design, by-law development, regulations, report back to Committee and Council, implementation team formed and begins work, public awareness begins	Continued public awareness campaign, administrative functions refined and begin to be put in place	Continued public awareness
	By-law comes into effect, First reference year. Homes must be occupied at least 6 months during this year	Second reference year begins
		First homeowner declarations due for 2022 occupancy status, tax bills issued, audit function begins, revenues materialize, annual report developed by year end

The above noted timelines need to be carefully considered within the context of COVID-19 conditions in the marketplace and in the City's workforce ability to carry out such work.

Operations:

As part of the implementation of the new tax, adjustments to existing City systems would be required. A new module for the City's Tax Management and Collection System would be required, taking advantage of synergies with the existing property tax and land transfer tax systems. This system would handle the processing of applicable taxes for vacant properties, using the same property assessment information used in the existing property tax system. Furthermore, a front-end portal would be required for declarations of property occupancy status, as well as for initiating appeals and providing an interface for the public to interact on VHT-related issues. Consultation with the City's operational support group indicated that such work would likely require two to three developers working full-time for approximately three to six months. Additional work involved would include security features, integration testing, corporate access, and privacy testing.

Although the City's existing system has proven to be dynamic in integrating new modules (e.g. the integration of the Municipal Land Transfer Tax), additional costs for hard capital such as servers and cloud services would also need to be considered. The City will also need to develop an audit and compliance capability. This would require technology systems and new staff in order to support the ongoing audit and compliance functions. Having this capability in place prior to the declaration period will allow for audit and compliance checks to occur in a timely fashion and minimize the potential of tax avoidance from home owners.

In addition, a dispute resolution system would need to be implemented to handle appeals as necessary. The City of Toronto already has an appeals process in place for supplementary taxes and land tax appeals. As part of the Empty Homes Tax in Vancouver, an independent body was established to handle the appeals and dispute resolution process. Such a body would require a defined or independent dispute mechanism or process to handle VHT case considerations. If, however, an independent body was not set up, the City could follow a similar process to that used for land tax appeals. Such a dispute resolution system would need to be established by the by-law.

The above system and capability implementations can take place during the lead up and duration of the initial reference period, depending on the time requirements for each process.

As part of ongoing operations of a VHT, the City would need to employ staff that could handle:

- tax administration;
- review and compliance (audit);
- communications, including notice and advertising;
- IT support and maintenance; and
- 311 call centre and maintenance.

Measuring Effectiveness:

KPMG importantly notes that as the City does not have existing reliable data on the number of vacant homes the effectiveness of the tax should be analyzed based on the trend of annual VHT declarations. Annual reporting and monitoring would be required to

effectively measure the effects of the tax and ensure the VHT is continuing to achieve the public policy objectives. It can be reasonably assumed that by simply announcing the tax and its effective taxation date of January 1, 2022, some owners of vacant properties may seek out tenants in 2021 to avoid paying the tax. This would help the City in achieving its objective of releasing housing stock, but will be difficult to measure quantitatively.

Conversely, for example, simply collecting the vacant home tax without reducing the number of vacant homes would not necessarily indicate the success of the tax program.

In addition to using the data gained through declarations, the City should continue to monitor and analyze other sources of information, such as utility usage information, public surveys, and housing data.

Furthermore with the collection of the tax and associated valuable related data, staff note that in particular, the following issues should be evaluated on an ongoing basis:

- Changes and evolution of vacancy rates over time
- Relationship between vacancy rates and market rents
- Higher number of secondary rentals, but at what affect to average market rents
- Optimal split between conversions and revenues

Jurisdictional benchmarking

Some key components of the Vancouver, and Melbourne experiences with vacant home taxes have been noted in this report already. A summary of other components and some results from the taxation are contained below. Full descriptions are contained in the Study attached to this report.

Table 5: Summary of Existing Vacant Home Tax Features

Features	Vancouver	Melbourne
Tax Measure	Empty Homes Tax	Vacant Residential Land Tax
Implementation Date	January 1, 2017	January 1, 2018
Policy Objective	To return empty or under-used properties for use as long-term rental homes for people who live and work in Vancouver	To encourage land owners to make residential properties available for purchase or rent so that Melbourne’s current housing stock is used as efficiently as possible
Tax Rate	Initially 1% of assessed property value 1.25% of assessed property value as of 2020, now increased to 3%	1% of assessed property value

Features	Vancouver	Melbourne
Definition of Vacant	Unoccupied for more than six months during the vacancy reference period —Vacancy reference period means the calendar year prior to the then applicable tax year	Unoccupied for more than six months during the vacancy reference period —Vacancy reference period means the calendar year prior to the then applicable tax year
Declaration	All residential property owners are required to make a declaration (“universal declaration”)	Only residential property owners with vacant properties are required to make a declaration (“self-identification”)
Audit	Random checks; Audits selected based on risk assessment	Random checks —Tips and notifications from general public —Audits selected based on risk assessment and data from other state/federal agencies
Implementation Cost	\$7.4 million	Information not publicly available
Annual Admin Cost	\$2.9 million	Information not publicly available
Authority	Municipal measure —Amendment to the Vancouver Charter	State-level measure (Victoria) —Amendment to the State’s Land Tax Act 2005
Revenue generation	Prior to implementation Vancouver did not forecast revenue, but expected the revenues generated to cover the cost of operations with excess revenues being directed to affordable housing programs —\$38.0 million raised for 2017 —\$39.8 million raised for 2018	Prior to implementation it was forecasted to generate approximately A\$80 million (C\$72 million) over the first four years —Media outlets have reported revenues as low as A\$5.4 million (\$C4.9 million) in the first year

Findings Relevant to Toronto

The Study noted that Toronto shares many similarities with Vancouver that make it a strong comparator jurisdiction. Both cities have experienced significant increases in housing costs over the last 5 to 10 years, and have sustained very low vacancy rates over a similar timeframe. Additionally, both face strong and increasing demand to live in the city, and are struggling to supply an adequate amount of housing to meet that demand. Furthermore, both cities are in provinces that have recently implemented provincial foreign buyers' taxes.

KPMG also suggests that it is still too early to definitively conclude that Vancouver's EHT is producing its intended results, at a high level there has been a decrease in vacant properties within the city. If the City of Toronto were to proceed with implementing a VHT, Vancouver's experience in implementing their EHT should be taken into account for insights into the structure and components of the tax (i.e. administration, exemptions, enforcement, etc.). Furthermore, lessons learned with regards to understanding the effectiveness of the tax, as well as setbacks, loopholes, public perception, and potential changes/revisions being made to Vancouver's EHT should be considered in Toronto's initial implementation of a VHT.

Similarly, Melbourne and Toronto share multiple similarities that make Melbourne a relevant comparator to Toronto in the context of a vacant home tax. Both cities have experienced recent property booms, significant increases in housing demand, low vacancy rates over the past 5-10 years, and have struggled to supply adequate levels of housing to meet increasing demand. Furthermore, speculation investment is exacerbating the housing shortage by keeping a significant number of properties off the market as investors hold properties vacant as speculative investment vehicles rather than allowing them to be occupied for housing.

In addition, both cities exist within Commonwealth countries, and share similar structures of government, laws, and regulations, which allow for relevant comparison in the context of taxes and similar such initiatives.

The Study also notes that although it is too early to conclude on the effects of Victoria's VRLT on the housing market in the City of Melbourne, there are still insights and takeaways relevant to the City of Toronto. Should the City of Toronto ultimately proceed with the implementation of a VHT, they can look to Melbourne for initial insights on the structure and components of their tax (i.e. exemptions, enforcement, etc.), as well as lessons learned surrounding identification method, setbacks, loopholes, and potential changes/revisions being made to Melbourne's tax that could be incorporated into Toronto's initial implementation of a VHT.

Implications for Toronto

Impact on home carrying cost:

The Study contained an additional layer of analysis that examined the impact of a VHT on the annual carrying cost of a home in Toronto. Assuming a 1% VHT rate (as a percentage of property assessed value), the analysis suggests that the impact of a vacant home tax would be between approximately 16% and 19% of the annual carrying cost of a dwelling in Toronto.

KPMG notes that in order for the VHT to change behaviours of home owners the VHT must be a significant cost increase over base carrying costs. A VHT would effectively become the second highest annual cost of maintaining a vacant home, after the annual mortgage payment.

More importantly KPMG suggests that given home prices increased by 7% in 2019 and are continuing to rise in 2020, a 1% VHT may not impact investor returns sufficiently for vacant home owners to transfer the home to the market. Vancouver recently increased the tax rate to 3%.

Potential conversions rates:

It is not possible at this point to quantify the impact a VHT would have on the number of unoccupied homes in Toronto and potential conversion rates. As noted throughout this report there is no accurate inventory of the number of currently vacant homes, nor how many homes would be subject to an exemption, making accurately determining the number of vacant homes that could be made available for rent not possible.

The only comparator would be the results of the annual change in unoccupied properties in Vancouver from 2017 to 2018. Furthermore as KPMG notes as 2017 was the first year the EHT applied to Vancouver homes this method would underestimate the potential impact on the number of vacant homes, as the number of vacant homes was likely higher when the EHT was not in place in 2016.

In general, the rate of vacancy and exemption fell from 2017 to 2018 in Vancouver, which suggests that vacant home owners were adjusting to the impact of the EHT. For example, vacant taxable single family units fell from 0.6% to 0.5% of the total single family unit stock in Vancouver between 2017 and 2018. Similarly for vacant taxable single condominium units fell from 2.1% to 1.6% of the total condominium stock in Vancouver between the same period.

This is presented as an illustration only as exact replications of such impacts cannot be directly applied to the untested Toronto market and a market further affected by the impacts of the COVID-19 pandemic.

Potential revenues from non-conversions:

KPMG in their study presented various scenarios across variable rates of vacant homes, the CVA of those vacant homes as well as potential vacant home tax rates

The full range of calculations is included in the KPMG study attached to this report. A key assumption and findings is presented here.

Under a scenario where Toronto has the same vacant home profile as Vancouver initially recorded (~1% of the residential class housing stock), the City would receive \$55-\$66 million in gross revenue from a 1% vacant home tax. Approximately half of this revenue would be from vacant condominium units and a third of the revenue coming from single family detached homes.

This is just an illustrative calculation and the actual results will vary based on the multi-variate input to the tax as to the numbers and CVA of actual vacant units observed under such a tax. Further, like Vancouver, it can be reasonably expected that the number of vacant homes in Toronto will decline on an annual basis following implementation of the VHT thereby reducing revenue.

Impact on other municipal revenues:

It is likely that implementing a VHT will positively impact the housing market in Toronto and potentially impact the revenues received by the City. As the housing market is impacted by a range of factors, such as economic conditions, other government policy, and individual preferences, assessing the potential impact of a single change is difficult.

Based on discussions with Vancouver city staff, they have not identified an impact to the provincial Property Transfer Tax (PTT) based on the implementation of the EHT.

However, it was noted that if the EHT reaches a certain level, some owners may choose to sell their property to a family member and pay the associated property transfer tax rather than incur the EHT. As the property would be transferred under this scenario, it would be exempt from the EHT for one declaration period. However, the purchaser of the property would be responsible for paying the PTT. Depending on the purchase price of the home, the PTT may be significantly lower than the amount of EHT that would have been received. In order to minimize occurrences of property transfers for nominal amounts, the City could remove the EHT exemption for property transfers that are significantly below the property's assessment value.

If the implementation of a VHT in Toronto encourages vacant home owners to sell their property rather than pay the VHT, this would likely lead to an increase in Municipal Land Transfer Tax (MLTT) received by the City. However, if it increases the number of total property listings, the VHT may suppress the sale price of homes, which could result in lower MLTT revenues per property. In this scenario, there would likely not be a material negative impact to municipal revenues. If a VHT does encourage owners to sell their home, this would likely be new source of revenue that the City would not have received if the VHT had not been implemented.

Additionally, the implementation of a VHT should decrease the number of vacant homes, therefore increasing the number of residents of Toronto. The cost of providing some services, such as waste collection/processing, transit service, water service, and recreational programs, may therefore increase as the number of residents increase. In some instances, such as waste collection and water service, the City would see associated fee revenues for these municipal services.

Measuring Effectiveness and Reporting

There will be the need for ongoing analysis from annual data and requirement for annual reporting. The detailed design and study phase will include the formulation, design and expectations for annual report formatting. This will include drawing inferences and insights into the nature, type and duration of home that are being held as vacant, and whether the tax effectively moves those homes in to an occupied status over time.

COVID-19 and 2020 Impacts Moving Forward

In its Study Supplement, KPMG noted that the continued need for a VHT would be justified based on the following conditions:

- COVID-19 has caused short-term shocks, which affected availability and affordability as outlined before. While all of this may create some opportunity to enable more people to access housing options (the primary purpose of a VHT), there is a general pessimistic outlook across most sources for the economy over the next 2 to 5 years, which could exacerbate the challenges of obtaining housing in Toronto.
- Long-term behaviours will have to be examined closely, for example will demand for downtown living decrease as virtual working becomes more prominent? Again, these may be short-term impacts and it remains unclear as to whether or how prominently these trends will be in the future.
- Some experts are warning that we shouldn't count on this current rental price relief; it is possible that following the pandemic, some buyers who had put their purchasing plans on hold may be reluctant to jump back into the housing market and may elect to rent instead. This may help to balance out any loss in rental demand, preventing any significant drops in average rental price.
- The long-term economic ripple effects on the real estate market will largely depend on the economic recovery scenario.

The potential benefits of a VHT remain positive during this time of crisis. The VHT will incrementally help meet the City's objective of increasing housing availability and affordability, and possibly generate some much-needed revenue. In addition, the City may wish to identify additional exemptions to the VHT to help mitigate impacts on people that may be more affected by the pandemic.

There is still a lot of uncertainty in long-term projections for the overall real estate market, but the current challenges will most likely persist into the future, and VHT may be a helpful and effective tool to address these challenges

Implementation Considerations:

- Understanding that the City's primary objective of the implementation of a VHT is to increase the supply of housing available on the market (incentivizing property owners to either convert their vacant properties into rental units or to sell them altogether) and thereby provide relief to the cost of housing, the social implications of the COVID-19 pandemic further add to the necessity that the City address the public issue of supply and access to available and affordable rental housing.
- As indicated in the report, a VHT requires a significant amount of time for a complete implementation. Steps include public consultation, drafting of legislation and policy and possible regulation changes, setting up internal capabilities and necessary IT and audit functions, and launching of an educational awareness campaign. With the inherent impacts of pandemic restrictions and remaining work to be conducted, 2022 is likely the earliest option for the tax to come into effect.
- The uncertainty created by COVID-19 could push the City to delay the implementation timeline, however, it is most suited to align with the City's fiscal year. Delaying its implementation even further, could result in the first taxation year being delayed to 2023 rather than 2022 because residents will need sufficient time to adjust to the potential impact of the tax (i.e., the City should allow approximately 6 months from announcement of the VHT to the first reference period).

The ability to launch a VHT implementation plan during COVID is not insurmountable, but the following measures should be considered as part of any plan moving forward:

- Increased importance for adequate time to carefully plan out tax design, by-law, provincial regulation, public awareness campaign
- Consideration of allowing reasonable timelines that give homeowners sufficient time to sell or rent out their vacant unit
- Ease of administration, operational efficiencies and public awareness of making annual declarations based on reference years that follow calendar years rather than mid-year to mid-year reference periods.

Summary and Next steps

This report has presented the findings of a professional study with recommendations on how to move forward on implementing a vacant home tax in Toronto. It has provided the context of COVID-19 related changes to the marketplace and the ability to implement such a tax in this context. The report recommends moving forward in a measured approach to undertake the necessary detailed tax design steps to create a vacant home tax program and report back to Committee and Council by end of Q2 2021.

Key steps include:

- Establishing a dedicated interdivisional project team to lead the implementation of a VHT;
- Engaging with Provincial staff to develop any necessary regulations;
- Engaging with City Legal to draft the necessary by-law to implement a VHT
- Engaging with CIT and others to build the necessary technical infrastructure to administer a VHT including a universal declaration system, compliance/audit database and payment system;
- Undertaking an extensive public education and awareness campaigns to ensure homeowners are aware of the tax, applicability of the tax and requirement to declare on an annual basis;
- Form and audit and compliance team to develop audit procedures and protocols, review annual declarations, identify non-compliance with the tax and create annual reports on the impact of the tax

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ATTACHMENTS

Appendix A – KPMG Study and Study Supplement