

# A Vacant Home Tax In Toronto ?

Exploring Public Policy Benefits & Costs

August 22, 2017

# Toronto's Housing Affordability

- Toronto's housing market has experienced unprecedented price escalation over the last several years
- Population and employment growth, higher incomes and very low borrowing costs contributing factors
- Many prospective purchasers and renters are being priced out of the Toronto market
- Some reports of speculation and foreign investment driving up prices and holding homes for investment purposes unoccupied

# Ontario Government's Response to Housing Affordability

- Changes to PLTT to increase the refund to first time home buyers, and increasing rate for homes over \$2 million
- Consideration of inclusionary zoning as part of residential developments
- Legislative amendments to encourage second suites

## **Most Recently – Ontario Fair Housing Plan (2017) 16 points including:**

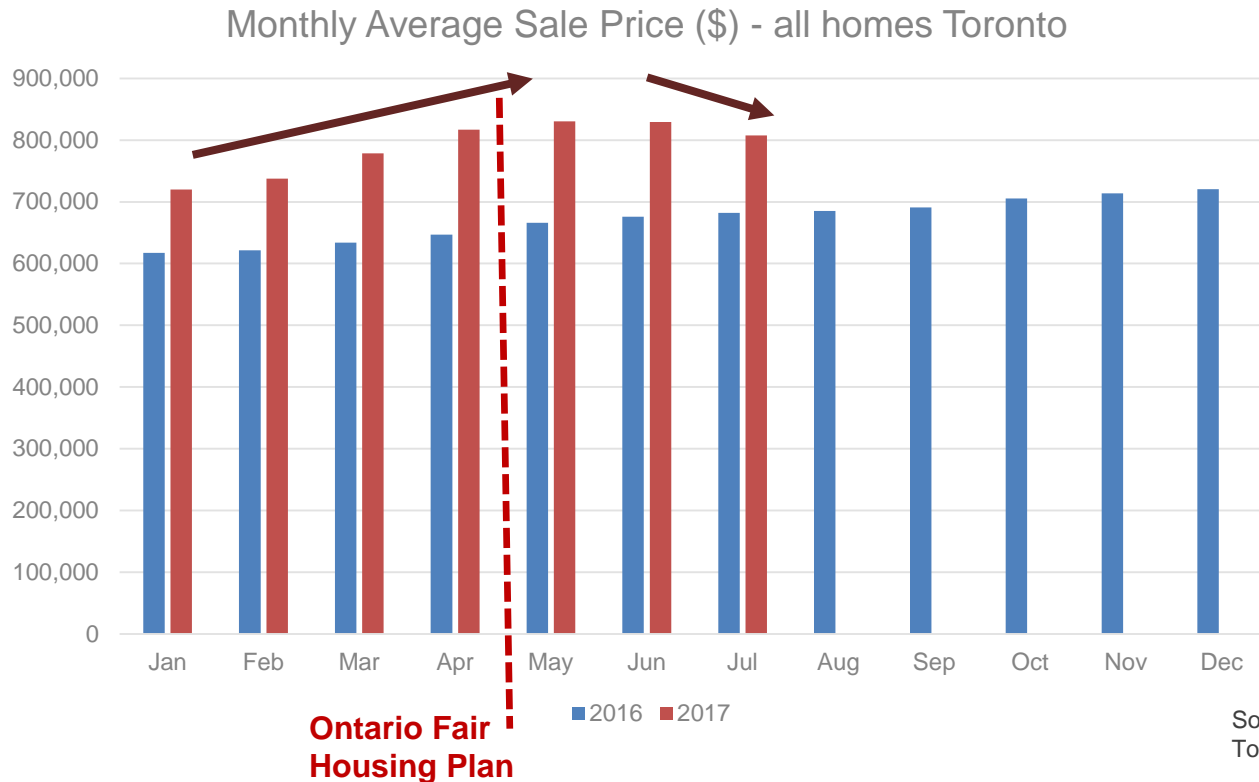
- 15% Non-Resident Speculation Tax in the Greater Golden Horseshoe (April 2017)
- Permitting municipalities to impose a higher tax on residential vacant land that has been approved for new housing;
- Partnering with CRA to address practices that may be contributing to tax avoidance and excessive speculation in the housing market;
- Actions to protect renters via strengthening the Residential Tenancies Act;
- Permitting municipalities to introduce a vacant homes tax (applies only to residential property tax class)

# Other Actions Affecting Housing Affordability

- Changes to tax filings for sales of homes by foreign owners – Oct. 2016
- CMHC increases to mortgage insurance premiums – March 2017
- Bank of Canada key interest rate increase – July 2017
- Federal Office of the Superintendent of Financial Institutions notice to lenders to strengthen qualifying stress test for all uninsured mortgages – July 2017

# Effects on Housing Market

- Recent home sales and average price decrease over summer 2017



# Incidence of Vacant Homes

- Privacy rights preclude the use of homeowners water and hydro meter data to directly identify individual vacant units
- Aggregated/anonymized data can be used for analytical purposes only:
  - Vancouver estimate ~10,000 vacant units, on total count of 225,000 units (5%)
  - Toronto estimate ~15,000 - 28,000 vacant residential units, on total count of 752,000 units (2-4%)

# Vancouver's Approach

- Similar housing affordability issues
- First to introduce a vacant home tax in Canada
- Vancouver's learning transferable to other jurisdictions contemplating such a tax
- Undertook significant consultation with property owners and the general public, and with subject matter experts in the real estate, academic and government fields
- Outreach vehicles included open houses, workshops, direct mailings, and surveys
- Engaged technical expertise on legal and administrative matters related to the empty home tax
- Reached out to international jurisdictions that have adopted policies for their approaches and lessons learned

# Vancouver's Objective – Vacant Home Tax

- To encourage owners to occupy or rent out their property
- To increase the supply of housing
- To decrease the rate of unoccupied housing units from speculators
- To tax owners who choose not to rent out their unoccupied units and apply net proceeds towards affordable housing
- Primarily a policy tool, rather than a revenue tool – *initial annual operating cost estimates of \$1.5 million and initial annual revenues of \$2.2 million with estimated start-up costs of \$4.7 million.*



# Vancouver's Model

1. Annual Mandatory Declaration of property occupancy status by all residential property owners (*225,000 properties in Vancouver – for comparison there are 750,000 residential properties in Toronto*)
  - *Properties that have no declaration made will be taxed along with those declared vacant and properties audited and discovered to be vacant*
2. Principal residences will not be charged the tax if occupied 6 mos/yr, otherwise are taxable
3. Non-principal residences - rented long-term, or for at least 30 consecutive days and a minimum of 6 months in the aggregate will not be charged the tax, otherwise are taxable
4. Setting the Tax Rate – effectively the difference between residential and business property tax rates (1%) (*e.g. on a \$1 million property, additional tax would be \$10,000*)
5. Mixed-use properties and multi-unit residential properties exempt if one unit rented

# Vancouver's Exemptions from the Tax

- Vacancy is due to a court order prohibiting occupancy
- Property is undergoing major renovations
- Ownership changed during the calendar year
- Property is subject to existing strata rental restrictions
- Owner or other occupier is undergoing medical or supportive care
- Owner is deceased and grant of probate or administration pending
- Owner used home for at least six months of the year for work purposes but claims principal residence elsewhere

# Other Key Aspects of the Vancouver Tax

- **Audit Program** – random audits, or where reasonable grounds to believe false occupancy declaration was made
- **Notices** – vacancy tax notice mailed to owner after status declaration reviewed
- **Evidence of Occupancy** – proof of address (e.g. government ID, insurance, income tax assessment, tenancy agreements, employment contracts, etc.)
- **Fines and Penalties** – up to \$10,000 fine for each violation of by-law; 5% penalty if tax not paid on due date, plus the tax amount
- **Appeals Process** – adjudication process through tax review officer/panel

# City of Toronto Council Recommendations

- Undertake public consultation on the public policy benefits of implementing a tax on vacant residential units in Toronto including tax design features and possible administrative approaches for identifying vacant units



# Vacant Homes Tax: Benefits & Challenges

## Benefits

- Encourage vacant homeowners to rent out vacant home, increasing supply of occupied housing;
- Properties subject to tax may contribute revenue (net admin. costs) to fund affordable housing projects

## Challenges

- Property rights concerns;
- Identifying vacant homes: all 750,000 property owners in Toronto would have to declare occupancy status each year, or else be subject to tax;
- Administrative functions to manage program: mailings, billings, collections, disputes, appeals must be created and funded

# Summary of Consultation Matters for your Feedback

- Will this tax be effective in providing more affordable housing in Toronto
- Administrative Approach to Identify Vacant Units
  - Mandatory Declaration by all properties (Vancouver Model); or
  - Self-Declaration by vacant owners; and/or
  - Complaints Based investigations
- Exemptions or considerations

# Current & Next Steps

- Consultation with property owners and general public in August 2017
- Dedicated web-page, on-line survey, social media and polling
- Analysis of findings from public consultation
- Assessment of public policy benefits and challenges
- Formulation of recommended approach
- Report back on results of consultation to Executive Committee and then City Council in Fall 2017



# Public Consultation