

Update to Council: Work Program on Improving the Effectiveness of the Empty Homes Tax

What we are presenting today

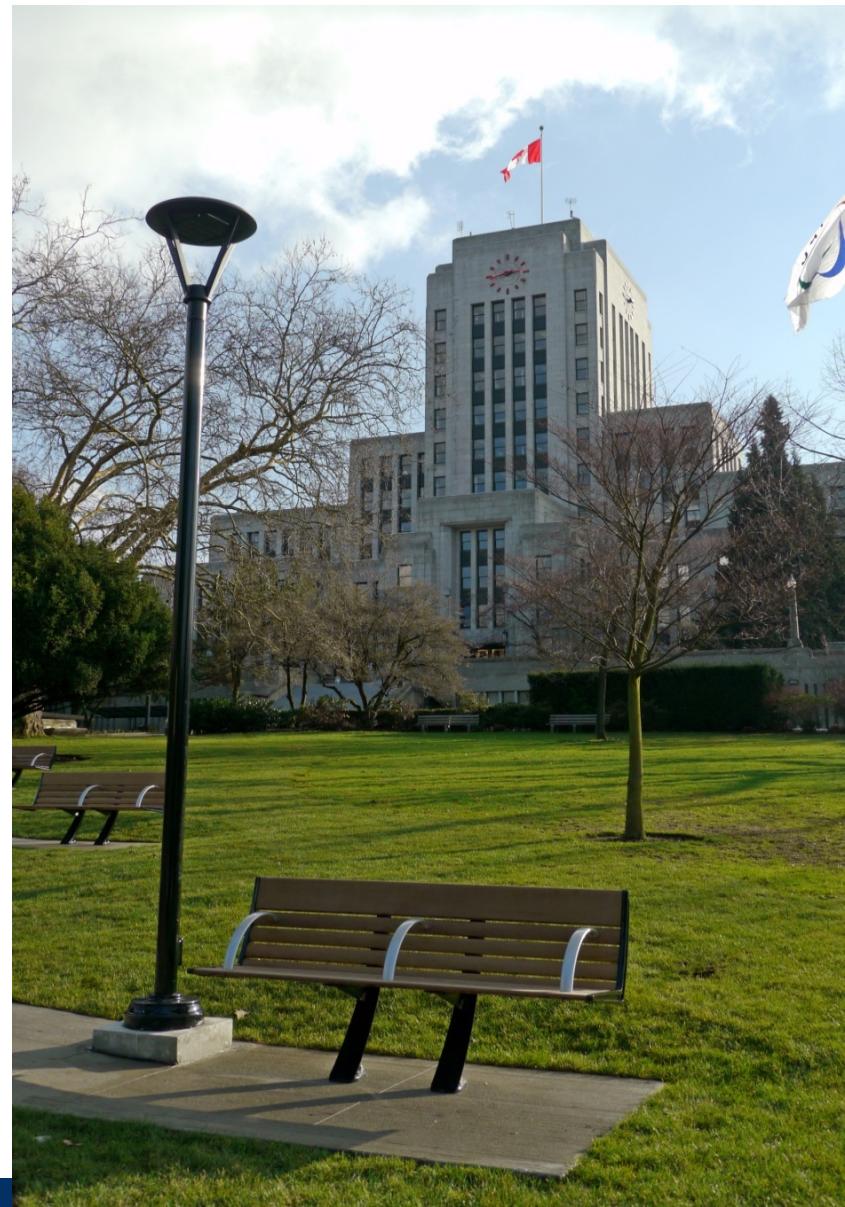


1. EHT background.
2. Early data from 2018 declarations.
3. Recommendations for by-law amendments to be effective for 2019 tax year.
4. Further recommendations for fall report back with results of staff analysis and consultation:
 1. Additional by-law amendments to exemptions and definitions; and
 2. Tax Rate.

Background on the Empty Homes Tax



- The EHT is a tax on empty and under-utilized Class 1 Residential properties in the city of Vancouver.
- Empty homes are subject to a tax of 1% of the property's taxable assessed value.
- The EHT is applied annually. The first tax year began on January 1, 2017.



Background on the Empty Homes Tax



Most homes are not subject to the EHT, including those that are:

- Principal residences;
- Rented out for at least six months of the year; or
- Eligible for an exemption.

Net revenues from the program will be invested into affordable housing initiatives in Vancouver.



Background on the Empty Homes Tax



Exemptions for:

- Death of owner;
- Property undergoing redevelopment or renovations;
- Owner in care ;
- Strata rental restriction;
- Property transfer;
- Full-time employment in GVA with PR outside GVA;
- Court order prohibiting occupancy; and
- Limited use (i.e. lawful use of property limited to parking).

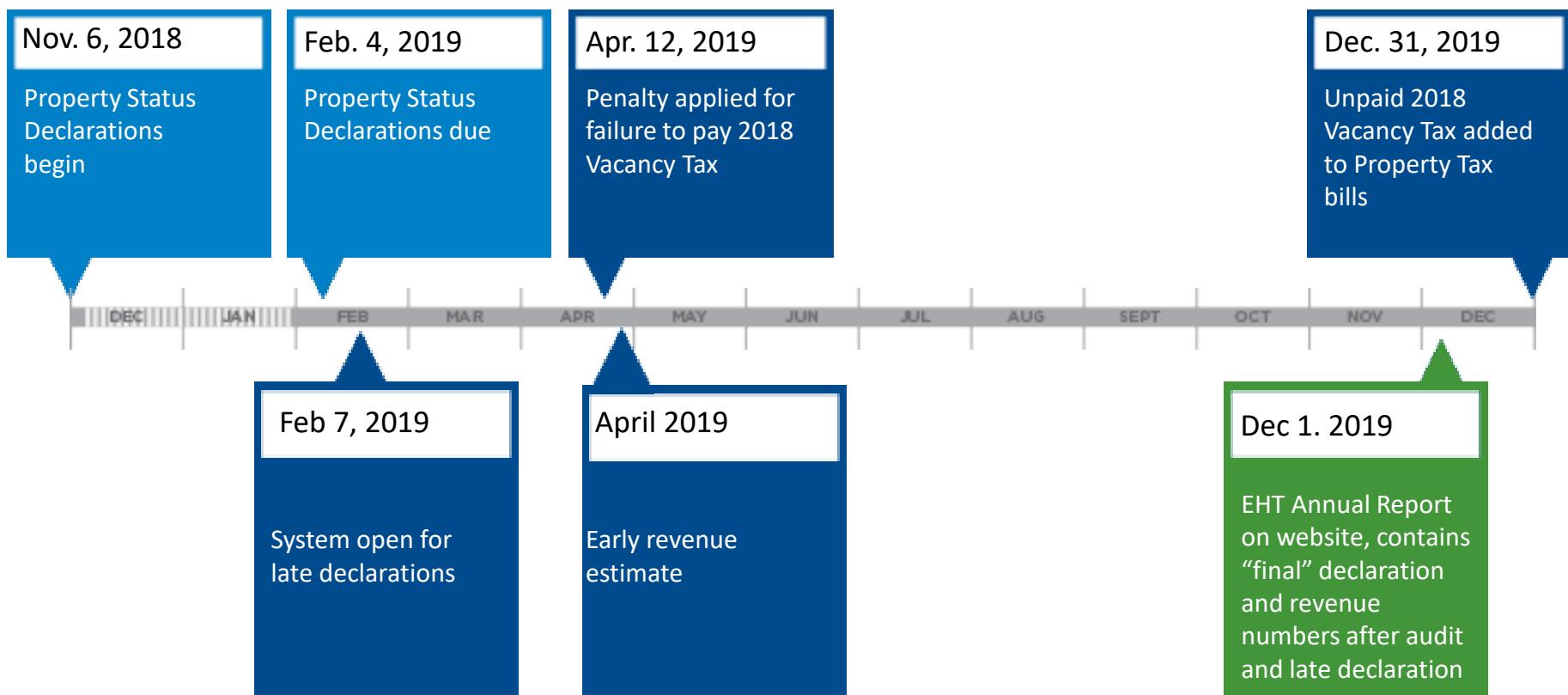


Frequent Question: Why does the EHT Apply to Second Homes?



- The issue of taxation of second homes and vacation homes **was the number one issue** raised in public consultation for the tax.
- **Staff recommended not to exempt second homes that were occupied for part of the year for the following reasons:**
 - Difficulty verifying length of occupancy: No way for audit staff to tell if home occupied 100 days per year or 5, documents like receipts very easy to falsify.
 - Negative impact on tax effectiveness: Most owners of empty homes would gravitate to this category making the tax ineffective.
 - High administrative cost on owners and City: Likely to result in administration costs higher than tax revenue.

Empty Homes Tax Timeline



2018 audit and compliance activities ongoing

Motion – Exemption and Rate Review



Council directed City staff to report back by the end of March 2019 with a plan to review and improve the fairness and effectiveness of the Empty Homes Tax.

Plan to include:

- **A review of the fairness and effectiveness of exemptions and definitions**, considering as well the Provincial Speculation and Vacancy Tax definitions;
- **Data on how many empty and under-utilized properties** have been returned to the market as long-term rental homes;
- The ability of the City and **mechanisms the City can use to track** how many properties are made available for long-term rental;
- A proposed timeline to provide information on the **potential impact of increasing the Empty Homes Tax rate** including program benefits and potential drawbacks; and
- **Recommendations for public consultation** and further internal analysis.
- Council also asked staff to consider options for **creative use of vacant land**

Difference in declaration process in 2017 vs 2018 means data not perfectly comparable:

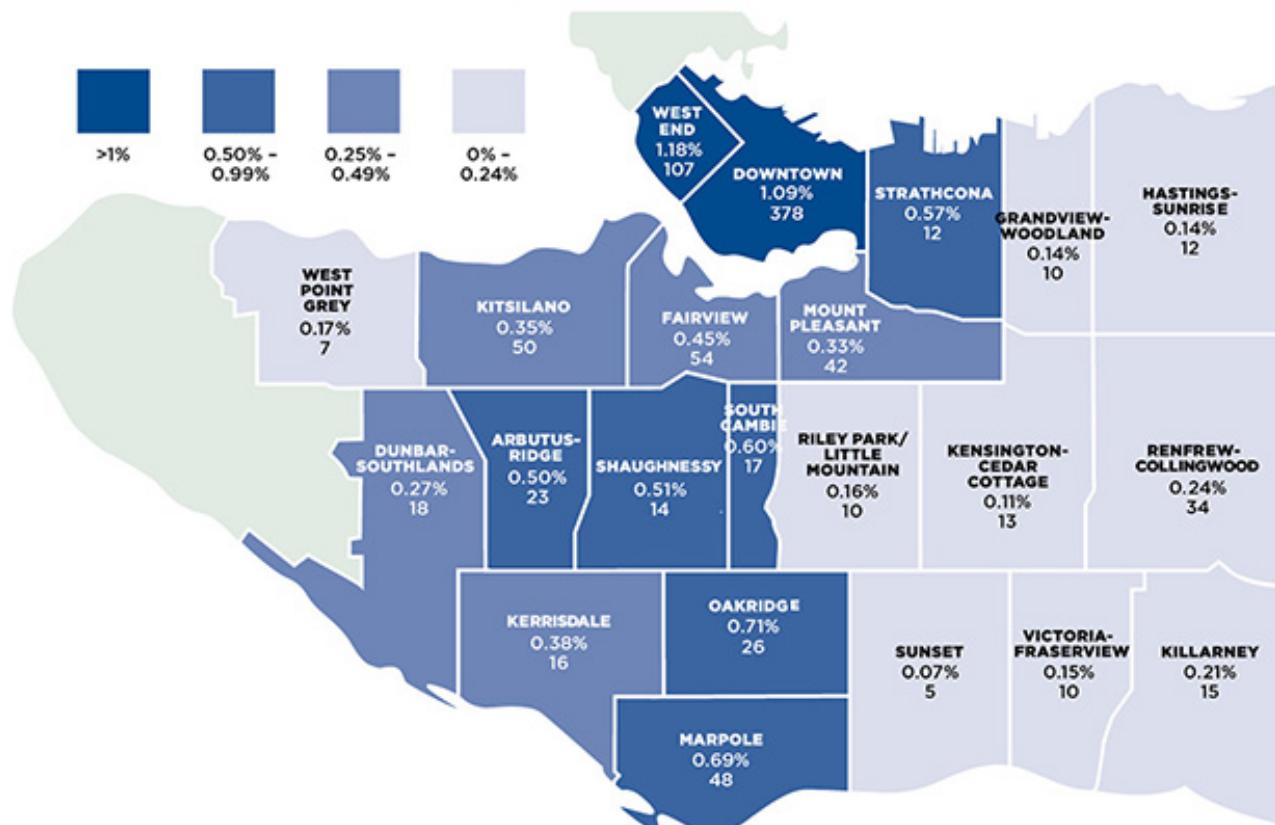
- Declarations closed earlier in 2017 compared to this year due to a ~1 month grace period for first year.
- Undeclared at 2017 declaration close = 2,132.
- Undeclared at 2018 declaration close = 4,979.
- More properties total needed to declare in 2018 vs 2017 (186K in 2017 vs. 189K in 2018).

Early data means numbers are subject to change – through late declarations and audits.

15% fewer properties declared vacant for 2018



Declarations received to date for 2018 tax year



As of Feb 4th
declaration deadline:

- **922 properties declared vacant 2018**, compared to 1,085 as of last year extended deadline.
- Majority of properties (117) returning to occupancy were rented.

Comparing 2017 vs. 2018 declarations



- Reduction in vacant and exempt.
- Movement was observed between all major categories.

Property Status	Declared 2018	Declared 2017*	Difference	Status unchanged
Occupied	179,020	177,582	1,438	171,515
Exempt	4,244	5,241	(997)	1,686
Vacant	922	1,085	(163)	525
	184,186	183,908		

* Represents data as of declaration close.

New Provincial Speculation Tax



Purpose of Speculation and Vacancy Tax: Prevent housing speculation and create homes out of vacant properties.

Many similarities to EHT:

- Annual declaration.
- Overlapping and similar (but not the same) exemptions.

Differences between Speculation tax and EHT:

- Applies to several areas in BC.
- Declaration by owner, not by property.
- Sliding tax rate for foreign owners (2%) and BC and other Canadian residents (0.5%).

Not possible to fully align EHT and Provincial Speculation and Vacancy Tax due to different purposes, but align when possible to reduce confusion.



By-law amendments: recommendation for approval

To take effect for 2019 tax year



Exemption	Current	Proposed Change	# in 2018
Death of owner	Prior to grant of probate or grant of administration	In year of death and following year	91
Property transfer	If legal ownership transfers	If transfer attracted PTT	1,611
Rental property	Tenancy for residential purposes	Arms length RTA lease	48,929

Death of Owner

Exemption

Death of owner

Property transfer

Rental property

- **Current exemption:** Applies to properties where the last registered owner on title is deceased; **and** neither a grant of probate nor a grant of administration of the estate of the deceased has been provided.
- **Issue:** No time limit to exemption, however once probate or administration has been granted, the property must be occupied.
- **Proposed change:** Align with Speculation Tax exemption, which exempts all owners in the calendar year in which the death occurs and the immediately following calendar year.
- **Benefit:** Clearer definition for owners, same definition for owners who need to declare for both taxes, more time to occupy if no probate or quick probate.

Property Transfer



Exemption

Death of owner

Property transfer

Rental property

- **Current Exemption:** Exemption for property that is transferred during applicable tax year.
- **Issue:** Current definition does not require payment of PTT to qualify; meant some non-legitimate transfers were qualifying for the exemption.
- **Proposed Change:** Align with Speculation Tax exemption, which exempts properties if owner paid tax under the Property Transfer Tax Act or had an allowable PTT exemption (e.g first time homebuyers).
- **Benefit:** Clearer definition with fewer loopholes; same definition for owners declaring for EHT and Speculation Tax.

Rental Property



Exemption

Death of owner

Property transfer

Rental property

- **Current definition:** Applies to properties occupied by a tenant for at least 30 days for at least six months of the year.
- **Issue:** Potential for an owner to enter into a tenancy agreement with a corporation they own in order to avoid the tax (e.g. Jane Doe rents to Jane Doe LTD)
- **Proposed Change:** Require tenancies or subtenancies to be under a lease or sublease as defined under the Residential Tenancy Act between the owner and an arm's length tenant or subtenant.
- **Benefit:** Addresses potentially unfair instances of empty or under-utilized homes qualifying as tenanted; no significant change for most declarers.

Important to approve now

- Immediate approval required in order to be effective for current tax year
- Proposed amendments directly respond to issues arising through audits and feedback from owners
- Alignment with Speculation Tax definitions will ease process for declarers next year
- Relatively small number of property owners impacted

Proposed Recommendations for Fall 2019

To take effect for 2020 tax year or later



Exemption or Definition	Current	2018 Declarations
Purpose Built Rental/SRO	Require 1 unit to be occupied for entire apartment to qualify as tenanted.	Only class 1 required to declare – mixed class are excluded from by-law
Strata rental restriction	Indefinite exemption for strata with rental restrictions	595
Vacant land	EHT is assessed on vacant land that is not subject to a development permit or part of a phased development	23
Taxation rate	Additional 1% tax on assessed value – in line with business tax rate	N/A

SRO/Purpose Built Rental



Exemption or Definition

Purpose Built Rental/SRO

Strata rental restriction

Vacant land

Taxation rate

Current by-law: Tax applies to Class 1 residential properties.

Issue: Only one unit needs to be occupied in order for a rental building to be exempt; mixed-class properties like many SROs are not taxable.

Potential Change: Require a higher threshold of occupied units to qualify as tenanted and consider options for taxing residential component of mixed-class properties.

Benefit: Tool for addressing buildings held vacant or near-vacant in the SRO and rental stock.



Strata Rental Restriction



Exemption or Definition

Purpose Built
Rental/SRO

Strata rental restriction

Vacant land

Taxation rate

Current by-law: Indefinite exemption for strata that had rental restrictions prior to tax coming into effect.

Issue: Provincial government has signaled that it may change the Strata Act to remove ability of stratas to ban rentals.

Potential Change: Remove or phase out EHT exemption if Province takes action.

Benefit: Potential additional properties brought back into use as rental.



Vacant Land



Exemption or Definition

Purpose Built
Rental/SRO

Strata rental
restriction

Vacant land

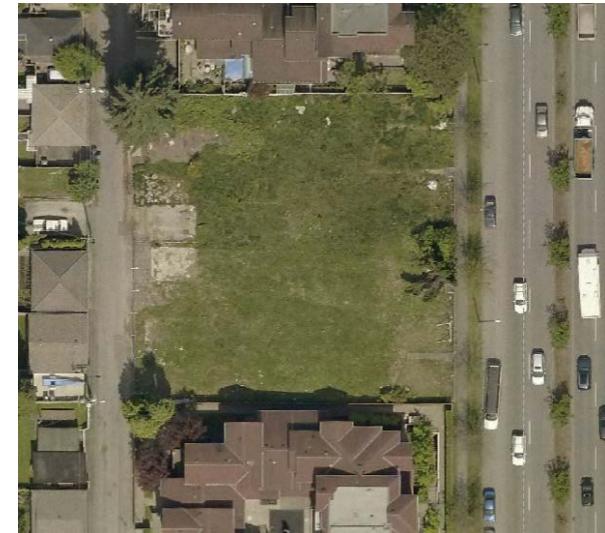
Taxation rate

Current by-law: EHT applies to vacant land unless a development permit or rezoning enquiry is under review
23 unimproved parcels declared vacant in 2018.

Issue: Some owners may wish to rent out temporary housing on unimproved land in order to avoid the tax.

Potential Change: Consult with owners on appetite for alternative uses of land.

Benefit: Potential opportunity to locate temporary modular housing or other uses on vacant land currently subject to tax.



Taxation Rate

Exemption or Definition

Purpose Built
Rental/SRO

Strata rental
restriction

Vacant land

Taxation rate

Current By-law: Tax rate on empty homes is 1% of assessed value. (i.e. \$10,000/ \$1M home); brings overall tax in line with commercial rate.

Issue: On some ‘stubbornly vacant’ properties, 1% rate may be too low to motivate owners to convert units to occupancy rather than paying the tax.

Potential Change: Several potential options for the taxation rate, including:

- Different rates for BC and other Canadian residents vs. foreign owners;
- Different rates for different categories of residential properties; or
- Rate increases based on number of years a property is left vacant.

Review of Exemptions and Tax Rate

1. Review of existing exemptions now that we have 2 years of data – focus on improving effectiveness, reducing declaration burden on owners.
2. Review of tax rate to encourage conversion of empty homes to occupied housing.
3. Review will include results of Staff analysis and consultation.

Thank You