

MEMORANDUM

November 26, 2019

TO: Mayor and Council

CC: Sadhu Johnston, City Manager
Paul Mochrie, Deputy City Manager
Lynda Graves, Administration Services Manager, City Manager's Office
Rena Kendall-Craden, Civic Engagement and Communications Director
Katrina Leckovic, City Clerk
Neil Monckton, Chief of Staff, Mayor's Office
Alvin Singh, Communications Director, Mayor's Office
Anita Zaenker, Chief of Staff, Mayor's Office
Colin Knight, City-wide Director of FP&A

FROM: Patrice Impey
General Manager, Finance, Risk & Supply Chain Management

SUBJECT: Response to Questions regarding the EHT report RTS 13389

Dear Mayor and Council,

Staff received a number of questions related to the EHT report. Below are the Questions and responses in *italics*.

1. Is the Chart on page 7 correct? Should the second box say "exempt" instead of "vacant" - otherwise both boxes have data on "Vacant" properties.

Trend 1: Reduction in vacant and exempt properties from 2017 to 2018

First box: In 2018, 6,245 properties were **vacant** (declared, deemed or determined) or **exempt** (approximately 3.3% of all properties); this is 1,676 fewer units than in 2017, a 21% reduction

Second box: In 2018, 1,989 properties (approximately 1.1% of all properties) were vacant; this is 549 fewer units than in 2017, a 22% reduction.

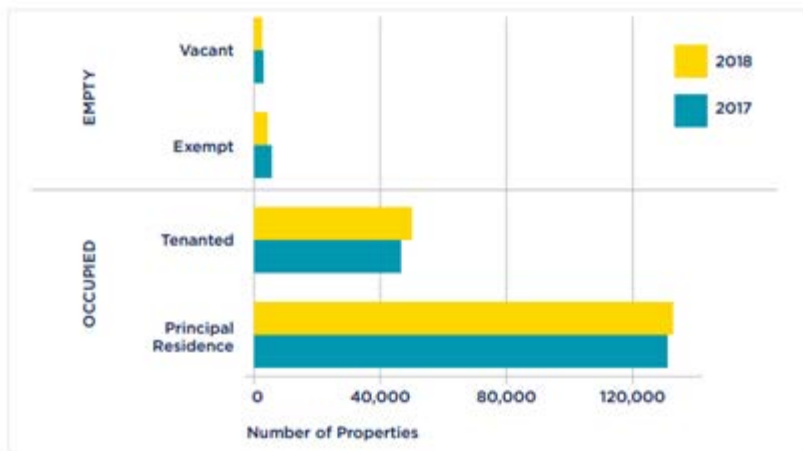
Response:

The statement is correct, the 6,245 is a sum of vacant 1989 and exempt 4256. The graphic from the annual report below may be a clearer representation.

VANCOUVER DECLARATIONS: VACANCY AND GEOGRAPHIC DATA

Property Status: 2017 and 2018 Tax Years

	2017	2018
EMPTY		
Exempt	5,383	4,256
Vacant	2,538	1,989
OCCUPIED		
Principal Residence	131,347	132,815
Tenanted	46,770	50,102
Total	186,038	189,162



2. Is the city receiving money/housing investments equivalent to our fair share of revenues from the B.C. School Tax and B.C. Speculation Tax?

Response:

B.C. Speculation Tax revenue collected from within Metro Vancouver must be spent on housing initiatives within this regional district. To date we are not aware of allocations of this revenue to housing projects.

Revenue from the B.C. School Tax is considered general revenue and does not have restrictions on its use.

3. What do staff think could be the impact in Vancouver and on our EHT of an increase in B.C.'s Speculation Tax to 2%?

Response:

Currently we don't know exactly who is paying both taxes but we can assume some owners are. This rise to 2% would affect foreign owners and satellite families subject to the Speculation Tax.

The City does not have the detail on the specific properties that would be affected, so are not certain as to what the impact will be. Staff intend to monitor for potential impacts next year, and stay in communication with the Province.

4. Experts are telling us we need to focus on increasing compliance, not raising the tax. What are the most effective ways to do this?

There are three ways of increasing compliance:

- 1. Make sure that the bylaw is clearly written. We responded with changes to the bylaw.*
- 2. Conduct more random audits. The experts told us that we need to do more audits rather than increase the tax. By doing random audits we may find more individuals that are avoiding the tax through false declaration. This has been effective as we have done approximately 2,000 more audits and we have several where we have randomly selected folios and then individual has responded that rather than go through audit they will just pay the tax.*
- 3. Our experts noted that, since the consequence of a false declaration and failing an audit is that the property owner pays the tax, this is not a significant deterrence to declaring falsely. Staff, in consultation with City prosecutor, are considering prosecutions for fines, particularly where there is strong evidence that the owner made a false declaration or provided false information and evidence in support of a declaration.*

5. Experts who staff consulted with said increasing the EHT to 2% or more could result in owners seeking properties in order to make use of the property transfer exemption available in the EHT by-law. Why do we have this exemption? Can we remove it?

Staff also noted that it is unlikely that owners would intentionally sell properties in order to make use of the property transfer exemption available in the EHT by-law but a rate higher than 2% could effectively push EHT revenue to the Province in the form of PTT. Please explain.

Response:

The intent of this exemption was to recognize that a property may be unoccupied temporarily during the year of sale and not to levy the tax in this year of transition. It also recognizes that in most cases of transfer, it would be the new owner who is required to complete the declaration, and that owner would not have the information about the use of the property for the whole year so as to allow them to accurately complete the declaration. This could unfairly penalize the new owner. Finally, this exemption allows for newly built homes which are completed in the first half of the year but sold in the second half to be exempt from the tax, as staff recognize it can take time for new properties to sell.

[BC Property Transfer Tax](#) is levied when a property transfers, the rate is variable 1, 2 or 3% depending on fair market value, while properties over \$3M pay an additional 2% (total 5%) on the portion over this value. The vast majority of properties paying the empty homes tax fall within the 2% band as they are between \$2 and \$3m. If EHT is raised above 2%, then an owner could sell the property to themselves, possibly by creating a numbered company, and exempt themselves from the empty homes tax (and speculation tax). They would pay PTT of

2% on the transfer rather than 4% EHT/Speculation tax combined. The 2% PTT revenue would be remitted to the Province.

6. Experts also identified that some property owners may try to avoid the EHT by reclassifying their property as commercial. How likely do staff think this would be? What is the process and basis for this kind of re-classification?

Response:

Class 1 residential mill rate is 2.56 per \$1000 of assessed value while Class 6 commercial is 9.33. If the property attracts the EHT, the effective mill rate is 12.56 – so a property will be paying slightly more tax than if it was commercial. With the addition of the speculation tax, the difference becomes much more significant and there would be an incentive to shift to commercial.

How is it done? The owner can request BCA to review the class based on the regulation and if they have been utilizing it as a commercial property it can be reclassified regardless of the fact that it is zoned residential as it is based on actual use.

7. How many audits do we conduct annually and what is compliance rate as a direct result of these audits?

Response:

From [EHT 2018 Annual Report](#)

	Period to November 1	
	2019	2018
Total Audits Completed	8,457	6,231
Non-compliant Audits	892	331
Non-compliance Rate	10.5%	5%

8. How many lawsuits are currently underway?

Response:

NOTE: This is confidential. An update will be provided in Camera. There are 6 outstanding cases.

9. How many complaints/appeals have we received via the complaint process for each tax year?

Response:

From [EHT 2018 Annual Report](#)

	Period to November 1	
	2019	2018 *
Accepted	346	1,207
Rejected	237	252
Total	583	1,459

Review panel

	Period to November 1	
	2019	2018
Accepted	35	8
Rejected	95	39
Total	130	47

10. How many complaints/appeals have we received outside of the complaint process for each tax year?

Response:

We do not have specific tracking related to complaints vs questions or queries that are outside of the official complaint process.

If you require any additional information and/or further clarifications, please contact me via email or at 604-873-7610.

Best regards,



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