



REPORT

Report Date: November 17, 2020
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Meeting Date: November 25, 2020
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TO: Standing Committee on City Finance and Services
FROM: Director of Finance
SUBJECT: Report Back on Empty Homes Tax 2021 Tax Rate Increase

RECOMMENDATION

- A. THAT Council direct staff to monitor the data resulting from the increase of the tax rate from 1% to 1.25% and report back in late 2021 with potential amendment to the Vacancy Tax By-Law to further increase the tax rate for the 2022 vacancy reference year.

CONSIDERATION

- B. THAT Council direct the Director of Legal Services to bring forward amendments as set out in Appendix A to the Vacancy Tax By-Law to increase the vacancy tax rate to 1.5% for the 2021 vacancy reference year.

REPORT SUMMARY

On November 27, 2019, Council approved a motion instructing the Director of Legal Services to prepare a further amendment to the Vacancy Tax By-Law to be brought forward for enactment in Q1 2020 to increase the rate of the Vacancy Tax to 1.25% for the 2020 tax year and, following the results of additional monitoring, increase the tax rate to 1.5% for the 2021 tax year, and to 1.75% for the 2022 tax year, with the additional revenues to be used to increase the focus on compliance as recommended by the housing policy experts, work with the province on enforcement and data sharing, and invest in housing for households with an annual income of less than \$50,000.

On January 21, 2020, the 1.25% amendment to the by-law was enacted by Council and is effective for the 2020 vacancy reference year, with property status declarations due on February 2, 2021.

Due to the structure of how EHT is applied each tax year, data from EHT on the status of properties for a given tax year is not available until late fall of the following year. This means that data to assess the impact of the 1.25% tax rate will not be available until late 2021. Currently, there is no data available to assess whether the increase in the vacancy tax rate from 1% to 1.25% has improved the effectiveness of the tax or the audit compliance rate to support a further increase in the tax rate from 1.25% to 1.5%.

This report outlines the considerations on a further rate increase to 1.5% for the 2021 vacancy reference year.

In a 2019 Staff report to Council, staff noted that after three years at the previous tax rate of 1%, trends in the number and rate of empty and tenanted properties were performing in line with the original objectives of the tax. Housing and tax experts as well as most key stakeholders were generally in agreement that the tax was performing as intended and that the 1% rate, exemptions, and coverage were appropriate at that time. The tax has also collected revenue to support affordable housing initiatives in Vancouver.

In the previous report, Staff noted that additional years of experience and data were required in order to provide a more fulsome understanding of the effect of the tax on housing in the city, the impact of initiatives like the Provincial Speculation and Vacancy Tax, and amendments made by Council to the Vacancy Tax By-Law since implementation of the Vacancy Tax or Empty Home Tax (“EHT”). Staff, as well as tax experts from Ernst and Young, also cautioned that an increase in the tax rate beyond 1% might have unintended consequences on both administration and effectiveness of EHT and on future revenue, and that further monitoring would be required to assess the impact of increases to the tax rate.

Staff recommend continuing to monitor key indicators and data to report back in late 2021 on the effectiveness of the vacancy tax rate increase from 1% to 1.25% for the 2020 vacancy reference year, with a potential amendment to the Vacancy Tax By-Law to further increase the tax rate for the 2022 vacancy reference year. Should Council wish to increase the rate in advance of receiving the monitoring information, staff have included that option as a consideration.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Part XXX (Sections 615-622) of the *Vancouver Charter* provides authority for Council to impose, by by-law, an annual vacancy tax.

On November 16, 2016, Council approved and enacted the Vacancy Tax By-law to levy a tax on empty and under-utilized class 1 residential properties within the City of Vancouver. The first tax year was 2017.

On July 11, 2017, Council enacted By-law No. 11855 to amend the Vacancy Tax By-law following program design and public feedback.

On October 30, 2018, Council enacted By-law No. 12287 to further amend the Vacancy Tax

By-law in order to provide clarifications to existing exemptions following the commencement of the first year of declaration, audit, and compliance work.

On March 12, 2019, Council enacted By-law No. 12396 to further amend the Vacancy Tax By-law to existing exemptions following the substantial completion of the first year of declaration, audit and compliance work.

On January 21, 2020, Council enacted By-law No. 12628 to further amend the Vacancy Tax By-law to increase the tax rate, add a new exemption, and extend the notice period for complaints and reviews, including an amendment to state that the Vacancy Tax Review Officer may only consider the submission of late filed notices of complaint regarding vacancy tax notices, including late declarations up until December 31 of the year in which the tax is due.

On May 26, 2020, Council enacted By-law 12701 to further amend the Vacancy Tax By-Law to extend the late property status declaration filing date for 2019 and later vacancy reference years to the second business of the July of the year after the tax is due and payable and to approve an extension for late property status declarations for the 2017 and 2018 vacancy reference years to December 31, 2020.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Empty Homes Tax Overview / Background

The Empty Homes Tax (“EHT”) or “Vacancy Tax” is levied on empty and under-utilized class 1 residential properties in the City of Vancouver. Homes or land determined or deemed to be vacant are subject to a 1.25% tax (1% prior to the 2020 vacancy reference period) of a property’s assessed taxable value. The EHT is applied annually, with the first tax reference year having begun January 1, 2017. Most residential properties are not subject to the tax, including homes that are principal residences or rented out for at least six months of the year; or homes that are eligible for one of eight (nine starting with the 2020 vacancy reference year) exemptions as set out in the by-law.

The core objectives of the EHT are:

- To return empty or under-utilized properties to use as long-term homes for people who live and work in Vancouver
- To prevent additional properties from becoming empty

Net revenues from the EHT may only be used for the purposes of initiatives respecting affordable housing. Available EHT funds have either been allocated or will be allocated through Council reports or the operating and capital budget plans. Further description of specific funding allocations is available in the EHT Annual Reports.

Strategic Analysis

On March 5, 2019, Council directed staff to report back to Council with the results of a review of the fairness and effectiveness of the EHT in achieving its core objectives of returning empty and under-utilized properties to the market as long-term rental homes and preventing new properties from becoming empty. One of the specific items Council directed staff to provide was information on the potential impact of increasing the EHT rate. The EHT rate was 1% at that time and Council directed staff to look at whether increasing the rate would be more effective at encouraging conversion of properties to rental.

On November 27, 2019, staff reported back to Council with key trends from 2017 to 2018 and a summary of feedback from housing policy and tax experts regarding the risks of an increased tax rate encouraging non-compliance or avoidance. Based on the information reported to Council, staff did not recommend an increase to the EHT tax rate at that time, but to continue to monitor the impact of the Provincial Speculation Tax and other measures and re-assess as needed.

On November 27, 2019, Council instructed the Director of Legal Services to prepare a further amendment to the Vacancy Tax By-Law for enactment in Q1 2020 to increase the vacancy tax rate to 1.25% for the 2020 tax year. The rate increase was enacted on January 21, 2020. In addition, Council stated that, following the results of additional monitoring, a further amendment be brought forth for enactment to increase the rate to 1.5% for the 2021 tax year, and to 1.75% for the 2022 tax year.

Although the data for the 2020 vacancy reference year is not yet available, three key trends in property status data to date (2017 to 2019 vacancy reference years with tax rate at 1%) demonstrates progress toward EHT objectives

Trend	Details
1. Reduction in vacant and exempt properties	<ul style="list-style-type: none"> - In 2019, 6,025 properties were vacant* or exempt (3.1% of all properties); this is 220 fewer units than in 2018 (3.5% reduction) and 1,896 fewer units than 2017 (23.9% reduction) - In 2019, 1,893 properties (approximately 1.0 % of all properties) were vacant*; this is 96 fewer units than in 2018 (4.8% reduction) and 645 fewer units than in 2017 (25.4% reduction) - There has been an 18% decrease (188 properties) in the number of properties declared as vacant since 2017.
2. Increase in declared tenanted properties	<ul style="list-style-type: none"> - There was a net increase of 3,948 tenanted properties between 2018 and 2019; this includes a net increase of 3,394 tenanted condominiums and 1,085 single family homes, offset by decrease of 531 other property types. - There was a net increase of 3,332 tenanted properties between 2017 and 2018; this includes a net increase of 2,277 tenanted condominiums and 760 single family homes.
3. Vacant* properties converting to occupied	<ul style="list-style-type: none"> - Of the 1,989 vacant properties in 2018, 41% were occupied in 2019 (tenanted or principal residence). - Of the 2,538 vacant properties in 2017, 61% were occupied in 2019.
* Declared, deemed (undeclared), or determined (through compliance) vacant.	

Further property status data on 2017 to 2019 vacancy reference years can be found in the Annual Empty Home Tax report. The Empty Homes Tax report for the 2019 vacancy reference year is in the process of being finalized at the time of writing this report and is anticipated to be made available on the city website prior to December 1, 2020.

There is also external data pointing to the impact of EHT on Vancouver's rental housing supply. The 2019 Rental Market Report from CMHC observed a shift toward long-term rental in Vancouver's condominium stock, with an increase of 5,920 condominium units in the long-term rental stock between their surveys in 2018 and 2019. CMHC notes that this shift coincides with the implementation of policies like EHT in the City of Vancouver. (Note: Differences in data collection methodology for rented condominiums in the CMHC Rental Market Report may not always align with EHT property status data.)

Data and trends in property status data for the 2020 vacancy reference year at the 1.25% vacancy tax rate will not be available until after the 2020 declaration period closes in February 2021 and the 2020 audit plan has been substantially executed (late 2021).

Timing of data available to assess impact of 1.25% tax rate

Property owners are required to submit an EHT property status declaration starting in late November 2020 to declare the status of their property for the 2020 vacancy reference year. The declaration period continues until the 2nd business day of February 2021 and vacancy tax bills for properties that are deemed (undeclared) or declared vacant will be issued on the 10th business day of April 2021.

Properties deemed vacant (undeclared) have until the second business day in July, 2022 to submit a late property status declaration.

Audit compliance work on the 2020 vacancy reference year will commence in Q2 2021 and continue until early 2022.

Due to this timeline, data to assess the impact of the 1.25% tax rate will not be available until late 2021 at the earliest, when the majority of the 2020 declarations have been received and the 2020 audit plan substantially executed.

Implications/Related Issues/Risk

Feedback on Increasing the Rate of EHT

As outlined in the November 27, 2019 report to Council, feedback was received from key stakeholders, housing policy and tax experts, including the following:

- Based on the data to date, the EHT at the 1% rate appeared to be performing in line with its stated policy objectives.
- Experts strongly cautioned that an increase in EHT rate would likely increase the potential for non-compliance and avoidance and suggested that before increasing the tax rate, that staff should consider opportunities to enhance compliance with the tax.

Financial

Since the implementation of vacancy tax, \$113.4 million has been levied, and \$84.8 million has been collected. To date, \$61.3 million has been allocated to fund affordable housing initiatives.

Based on the number of vacant properties in 2019 (deemed, determined and declared) to date and an average assessed property value of \$1.9 million for vacant properties, a 0.25% increase in the vacancy tax by-law could provide up to \$7.5 million of additional net revenue annually to fund affordable housing initiatives in the city.

Legal

Part XXX (Sections 615-622) of the *Vancouver Charter* provides authority for Council to, by bylaw, impose an annual vacancy tax. Council may amend the by-law at its sole discretion at any time. These amendments would come into force upon enactment of the amending by-law, a draft of which is attached as Appendix A, and would apply immediately unless otherwise noted.

CONCLUSION

Council has made a number of amendments to the Vacancy Tax By-Law since the implementation of EHT in order to improve the clarity and effectiveness of the tax. At this point, data is not available to assess whether the increase in the vacancy tax rate from 1% to 1.25% has improved the effectiveness of the tax to support a further increase in the tax rate from 1.25% to 1.5%. Staff will continue to monitor key indicators and data to report back in late 2021 on the effectiveness of the vacancy tax rate increase from 1% to 1.25% for the 2020 vacancy reference year with a potential amendment to the Vacancy Tax By-Law to further increase the tax rate for the 2022 vacancy reference year. Should Council wish to increase the rate in advance of receiving the monitoring information, staff have included that option as a consideration.

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**DRAFT By-law to amend the Vacancy Tax By-law No. 11674
Regarding an Increase to the 2021 Vacancy Tax Rate**

Note: A By-law will be prepared generally in accordance with the provisions listed below, subject to change and refinement prior to posting.

1. This By-law amends the indicated provisions of the Vacancy Tax By-law No. 11674.
2. Council amends section 2.4 by striking out “1.25 %” and substituting “1.5%”.

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