



## COUNCIL REPORT

Report Date: October 18, 2023  
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Meeting Date: October 31, 2023  
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TO: Vancouver City Council  
FROM: Director of Finance  
SUBJECT: Report Back – EHT Graduated Tax Rate and an Administrative By-law Change

### Recommendations

- A. THAT Council maintain the Empty Homes Tax rate at 3% on all vacant properties.
- B. THAT Council approve an amendment to the Vacancy Tax By-law, allowing late declarations to be made up to the second business day in July, of the fifth year following the vacancy reference period.
- C. THAT the Director of Legal Services bring forward for enactment the By-law amendment (see Appendix A) in accordance with Recommendation B.

### Purpose and Executive Summary

On May 10, 2023, Council approved a motion directing staff to report back on a graduated tax rate program for longer-term (repeat) vacant properties; where properties that were vacant for a single year would start at a lower rate, and the rate would increase if the property was vacant for multiple consecutive years.

This report outlines the results of the review of a graduated EHT tax rate program. The EHT program has been in effect for six years and staff continue to observe a reduction in empty properties, indicating the effectiveness of the program to return vacant or under-utilized residential properties to being occupied by a long-term resident and to prevent additional properties from becoming vacant.

As a result of staff analysis and consultation engagements with academics and housing experts and Ernst & Young (EY), staff recommend to Council to maintain the EHT tax rate at 3% on all vacant properties. The EHT program has undergone significant changes to both the rates and exemptions since the program's inception, and more significantly with the six new or amended exemptions approved by Council in May 2023. The recommendation allows time to monitor the

results of the recent by-law changes in May 2023 and contemplates the impacts and uncertainty of making further changes to the current tax program with considerations on behavioral changes of property owners, audit and compliance administration, revenue to fund affordable housing initiatives, and the overall impact on the objectives of the EHT.

Recommendation B refers to an amendment approved by Council in May 2023, which extended the late declaration period from eighteen months to five years (ie: allowing late declaration up to December 31 of the fifth year following the vacancy tax reference period). In reviewing the timing of the redemption period of properties listed and sold during a tax sale, staff are recommending a minor change in the bylaw from *December 31 to the second business day of July*, of the fifth year following the vacancy tax reference period. This will avoid the risk that a property may be sold through the tax sale prior to the redemption expiration (although such instances should be extremely rare). The bylaw amendment continues to allow a property owner to make a late declaration for almost up to five years.

### **Council Authority/Previous Decisions**

Since its introduction in 2017, the EHT has increased twice; from 1% to 1.25% in 2020, and then to 3% in 2021.

On [May 10, 2023](#), Council approved the motion to keep the EHT rate at 3% for 2023, amended or added six exemptions to improve the fairness and effectiveness of the EHT program, and extended the late declaration period of up to five years. Council also directed staff to explore a graduated EHT rate program and report back to Council.

### **City Manager's Comments**

The City Manager concurs with the foregoing recommendations.

### **Context and Background**

The EHT or "Vacancy Tax" is levied on empty and under-utilized class 1 residential properties in the City of Vancouver. Properties declared, determined (through non-compliant audit) or deemed (through non-declaration) vacant are subject to a 3% tax of the property's assessed value in 2023.

The EHT is applied annually, with the first vacancy tax reference year in 2017. The majority of 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 eleven current 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; and
- To prevent additional properties from becoming empty.

Since the inception of the EHT, amendments to the Vacancy Tax By-law have been made regularly to ensure the core objectives of the EHT are met and to improve the fairness and effectiveness of the tax.

## Discussion

In May 2023, six new or amended exemptions were approved by Council to improve the fairness and effectiveness of the EHT program. Council also maintained the tax rate at 3% in 2023 to allow for more stability in the program to help improve the analysis on the impacts of rate changes and the new or amended exemptions. Council directed staff to explore a graduated tax rate program to target longer-term repeat vacant properties at a higher rate and allow for a lower rate on newly vacant properties.

### Tax rate and options review

The current tax rate of 3% has been effective since the 2021 tax reference year. While the tax rate may seem low as a numerical figure, it is applied on the property's annual assessed value. For illustrative purpose, an average property valued at \$1,730,000 would incur EHT of \$51,900 in the calendar year.

The impact of the EHT on vacant property owners is predominately the tax, and it is a function of the tax rate compounded by the upward trajectory of assessed property values in Vancouver. The critical factor in determining the optimal tax level is finding a delicate balance; a rate too low might encourage property owners to keep their properties vacant due to a lower financial penalty, while a tax rate too high could drive greater non-compliant activities to avoid the tax. These factors have impacts on the number of vacant properties, the administration of the program and the revenue available to fund affordable housing initiatives.

Staff explored the following concepts for a graduated tax rate program:

- a) Taxing a property less than 3% for the first vacant year, followed by 3% (or higher) for subsequent years
- b) Imposing a 3% rate for the first vacant year, then subsequent years greater than 3%

The alternative (and recommended) option is to maintain the current tax rate system at 3% for all vacant properties. This system keeps the rate uniform for all vacant properties.

### Declaration behaviour and data analysis

Staff analyzed a cohort of long-term repeatedly vacant properties since inception of the program and consulted with housing and academic experts, and EY to understand the impact of the increase in the EHT rate from 1.25% to 3% for the 2021 and 2022 vacancy reference years. Audits for the 2021 and 2022 years are still ongoing, hence the data for these years is not yet fully conclusive; however, a few key findings include:

- A decrease in the trend of properties declared as vacant in 2021 and 2022 under the 3% tax rate:
  - approximately 160 fewer properties were declared vacant between 2020 and 2021, a 20% decline, and
  - approximately 130 fewer properties were declared vacant between 2021 and 2022, a further 20% decline. The new amendments taking effect for 2022 reduced the number of declared vacant properties by 30%.

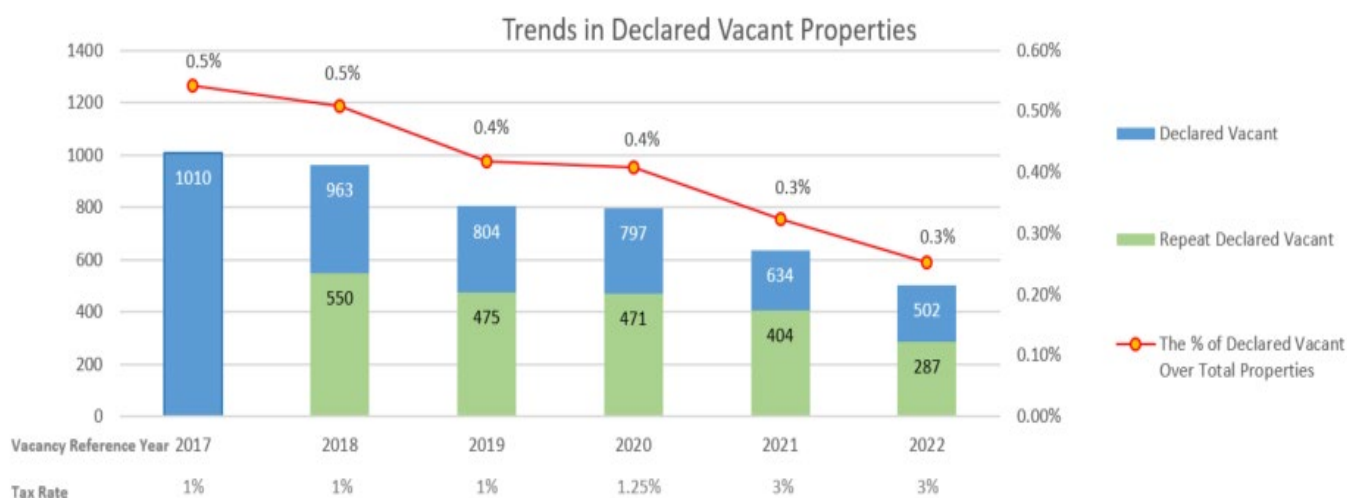
- A decrease in the trend of number of long-term declared vacant properties.

The Figure 1 graph below illustrates the number of properties that were declared vacant in each tax reference year and shows the composition of properties that declare vacant for the first year (in blue) and those that have been vacant for at least two consecutive years (in green).

The overall percentage of the declared vacant properties has been trending downwards since the inception of the tax. Additionally, the overall number of long-term declared vacant properties is decreasing each year and may further decrease due to the newly approved amendments/exemptions and maintaining the rate at 3%.

First time newly declared vacant properties are approximately 40% of the total declared vacant properties each year; this is a relatively high percentage indicating the effectiveness of the tax to change behaviors after being levied the vacant property tax in the first year. The number of properties that have repeatedly declared vacant two or more years remains stable, at approximately 60% of the total declared vacant properties, regardless of the tax rate.

Figure 1 – Trends in Declared Vacant Properties



\*these figures are subject to change given the new or amended exemptions enacted in 2023 may change the 2022 figures.

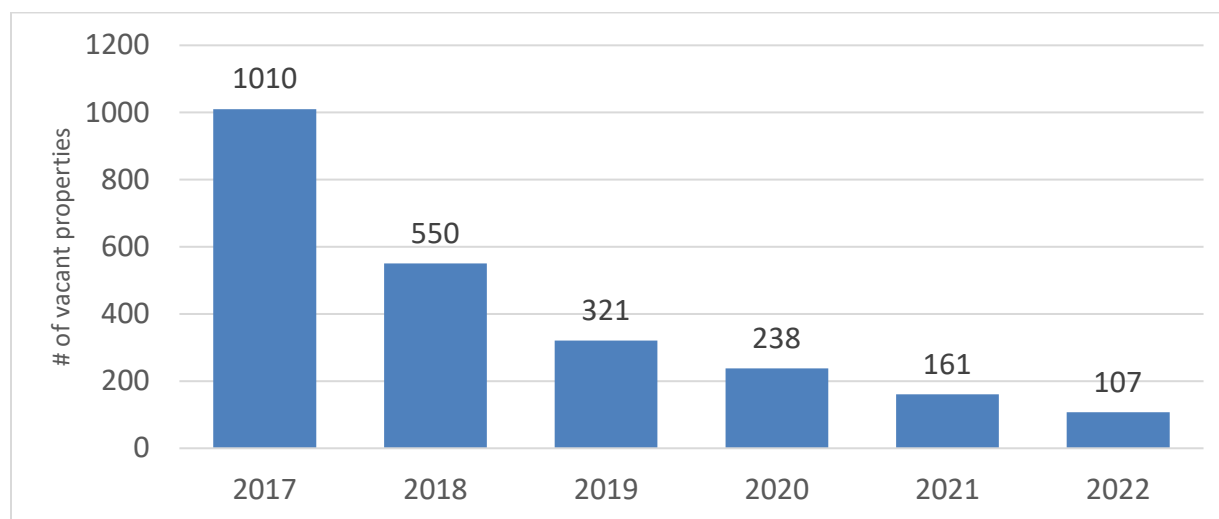
Staff further analyzed the cohort of long-term repeat properties that declared vacant. The analysis is illustrated in Figure 2 below and the findings indicate the declared vacant properties were reduced significantly after the first year of vacancy declaration, followed by a continued decline. Furthermore, the number of properties that have declared vacant is relatively small compared to the overall number of residential properties in the City. These properties indicate their compliance in declaring their vacancy status and the EHT tax was levied.

When exploring a potential higher tax rate for long-term vacant properties, the academic and housing experts felt this may encourage additional conversion of these properties to being occupied or sold. It would likely also result in a higher risk of tax evasion and tax planning strategies and a reduction in revenue to support affordable housing initiatives. A higher tax rate would consequently require more city resources to ensure a high level of compliance. Given the low number of long-term vacant properties (~100 declared in 2022) and the trend of less

properties declaring vacant and repeatedly vacant each year, it is unclear of the overall benefit to further increase the tax rate for long-term repeatedly vacant properties.

*Figure 2 – Long term repeat declared vacant properties*

*Profile of repeatedly declared vacant properties since inception of EHT*



### Recommendation

Given the recent substantial by-law amendments on new exemptions or amended exemptions approved by Council in May 2023, staff believe it would be beneficial to maintain the EHT rate to better understand the impacts of the amendments to further address fairness and effectiveness of the tax through exemptions rather than lower tax rates for newly vacant properties. Maintaining a consistent tax rate will help produce stable data for staff to perform better analysis and observations to assess the performance of the program.

The analysis to the recommendation was supported by the consultation engagements with a panel of academic and housing experts ('Panel') and EY to determine possible options for implementing a graduated tax rate system. Various options were presented, including tax rates below and above the current tax rate depending on the number of years a property was declared vacant.

The Panel provided the following summarized inputs on the graduated tax rate considerations:

- Repeatedly vacant properties are a small population but contributes to the generation of revenue to support affordable housing initiatives.
- The economics of implementing a graduated tax rate program is unclear; a lower rate may encourage more vacant properties due to a lower financial penalty but a higher rate may encourage avoidance behaviors leading to a reduction of revenue to support housing initiatives and not meeting the overall objectives of the EHT program.
- The current tax rate of 3% on all vacant properties seems to be working effectively, reflected in the declining trend of vacant properties year over year. The Panel strongly recommended to maintain the current tax rate to allow for longer term observation and further analysis.

- The consideration to improve fairness and unintended consequences should be addressed through exemptions rather than through the tax rate. The Panel indicated that significant exemptions have been made in May 2023 to address this consideration and staff should monitor those impacts.
- The Panel suggested that if a graduated tax program is considered that it should look at vacancy over a period of time rather than consecutive years to avoid property owners gaming the system, though this may add complexity to administer the program.

Based on data analysis and observations, staff have concluded these findings:

- There have been multiple by-law amendments since inception of the EHT program. The May 2023 by-law amendments approved by Council addressed fairness and unintended consequences from cumulative years of analysis.
- Constant changes to a tax program are not an effective practice, especially for a relatively 'new' tax as it may be difficult for property owners to stay informed and increases the administration and complexity of the program. A stable tax rate will contribute to producing improved and reliable analysis and enable data-driven decision making to support more effective exemptions and program changes.
- The number of properties that have declared vacant for consecutive multiple years are small and the overall trend of vacant properties is decreasing; reflecting the overall program effectiveness.
- A graduated tax rate program may increase risk of non-compliance, reduce revenue to fund affordable housing initiatives, and increase the costs of program administration.

Based on the above findings, it is recommended that the EHT rate should be **maintained at 3% on all vacant properties**, and that there should not be an introduction of a lower rate for first time vacant properties.

### **Financial Implications**

There are no financial implications associated with this report's recommendation with maintaining a tax rate of 3% on all vacant properties.

If a graduated tax rate program is introduced, the impact on revenue is uncertain as a lower tax rate may reduce the revenue but offset by higher vacant properties, but a higher tax rate may increase the revenue but offset by avoidance and evasion behaviors.

### **Legal Implications**

There are no legal implications associated with this report's recommendation with maintaining the current tax rate of 3% on all vacant properties.

If a graduated tax rate program is introduced, the graduated tax rate cannot be applied retroactively. If a graduated rate began at a lower rate than the current tax rate, the lower rate

would be applicable to all property owners in the introduction year, irrespective of their previous declaration history. The graduated tax rate would essentially be effective in the second year onwards after tracking the declaration status from the initial baseline year for all properties.

\* \* \* \* \*

**APPENDIX A**

**DRAFT By-law to amend the Vacancy Tax By-law No. 11674  
regarding the time period to submit a notice of complaint**

THE COUNCIL OF THE CITY OF VANCOUVER, in public meeting, enacts as follows:

1. This by-law amends the indicated provisions of the Vacancy Tax By-law No. 11674.
2. In section 6.3(a), Council strikes out “and no such extension will be granted beyond December 31st of the fifth year following the vacancy reference period” and substitutes “and no such extension will be granted beyond the 2<sup>nd</sup> business day of July of the fifth year following the vacancy reference period”.
3. A decision by a court that any part of this by-law is illegal, void, or unenforceable severs that part from this by-law, and is not to affect the balance of this by-law.
4. This by-law is to come into force and take effect on the date of its enactment.

ENACTED by Council this \_\_\_\_\_ day of \_\_\_\_\_, 2023

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
City Clerk