

Report Back: Graduated Empty Homes Tax Rate Program

October 31, 2023



- Maintained 2022 tax rate of **3%** for 2023
- **New exemptions** from EHT
- Allow owners to file a **late property status declaration** up to 5 years (previously up to 18 months)
- A new **late declaration penalty** charge of 5% of EHT (rather than the full amount of the EHT)

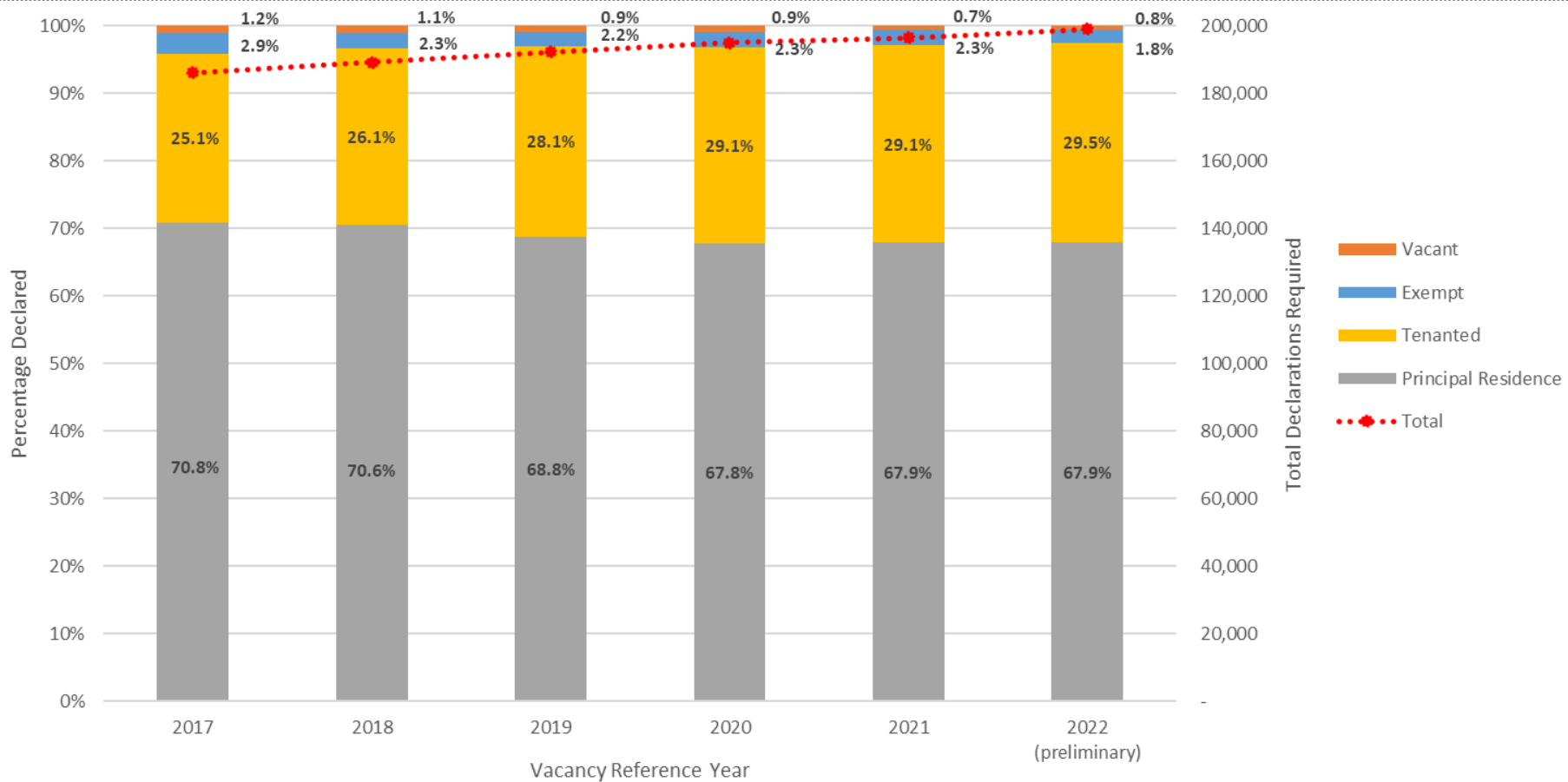
On May 10th 2023, Council approved a motion to direct staff to:

Report back on a graduated tax rate scheme for longer-term (repeat) vacant properties, where properties 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



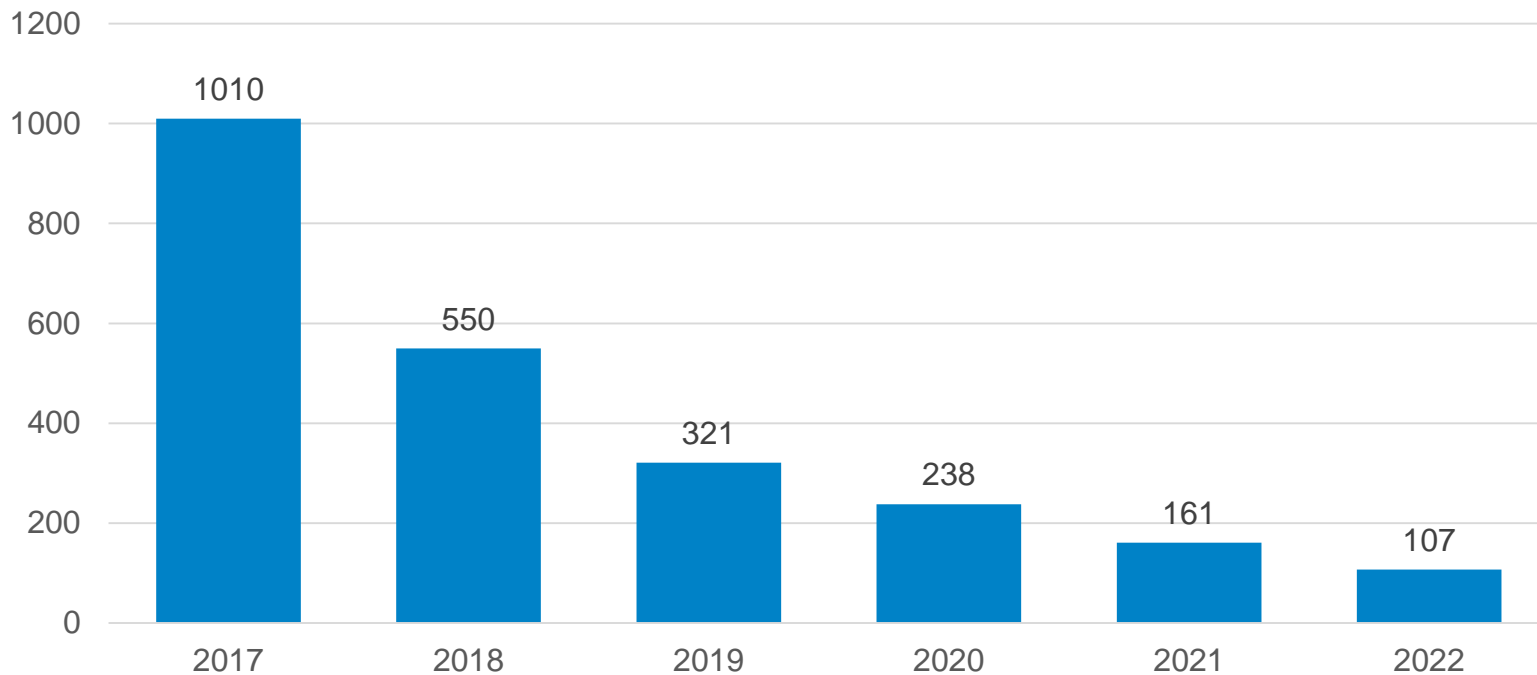
Highlights

- Rate started at 1% in 2017, increased to 1.25% in 2020 and 3% in 2021
- Downward trend in the number of **declared** vacant properties since EHT inception
- **<1%** of properties are vacant (~1,400 of 196,000)



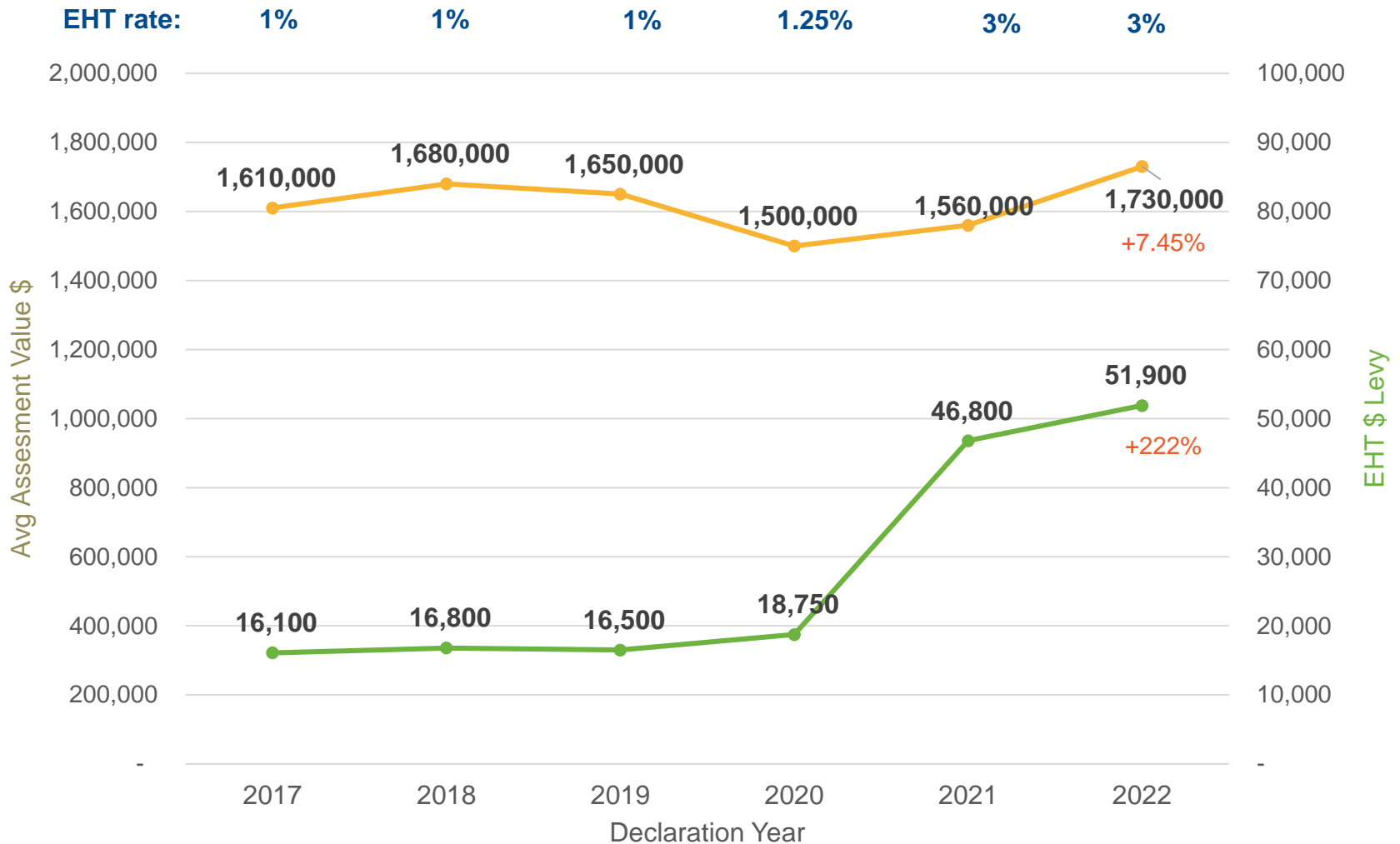
“Repeatedly Vacant” Properties

Profile of repeatedly ‘declared’ vacant properties since inception



- Longer term vacant properties continue to decline
- 84% of repeatedly vacant (6 years vacant) are condos

Assessment Values vs EHT Tax Rate



Increasing property assessment values over-time compounds the impact of the EHT tax rate

Graduated rate options explored

1. Maintain Rate – 3% on all vacant properties
2. First year < 3% then 3% for subsequent years*
3. First year 3% and subsequent years >3%

*Option 2: all properties will start at the same rate in the first year

Multiple workshops on exploring graduated tax rate program and options

- Internal workshops including EHT, Legal, and PDS
- External engagements with housing experts, academics, and Ernst & Young



External workshop findings

- Repeatedly vacant properties is a small pool but generates revenue for housing initiatives
- Don't lower rate (for first year) but ensure appropriate exemptions
- Concerns that a higher tax rate will increase avoidance behaviors and impact revenue
- Economics of implementing a graduated tax is unclear on the impact to revenue, administration of a more complex tax structure, non-compliance risks and meeting overall objectives of the EHT program
- Graduated tax program should look at vacancy over a period of time rather than consecutive years (game playing but higher administrative complexity)
- Focus on revenue maximization as opposed to achieving zero vacant properties; believe current rate achieves that target
- 3% seems to be working effectively, reflected in declines in vacant property year over year
- Strong recommendations to keep things the same to allow for long term observation and further analysis of data

Internal workshop findings

- Multiple by-law amendments since inception including significant changes in May 2023
- May 2023 by-law changes address fairness and unintended consequences from cumulative years of analysis
- Constant changes to tax program not an effective practice, especially for a 'new' tax
- Constant change to the program may increase frustration of property owners and increase administration and complexity of the program
- A stable tax rate will contribute to producing reliable analysis and enable data-driven decision making to support effective exemptions and program changes
- Low number of properties have declared vacant for multiple years and the overall trend is decreasing; reflecting program effectiveness
- Graduated rate may increase risk of non-compliance, forgone revenue, costs of program administration

- Current Rate:
 - Amendments and by-law review to address unintended consequences were based on recent data at 3%
 - Continue to observe positive trends and evidence that EHT is reducing the number of vacant residential properties in Vancouver
- A lower EHT rate **may**:
 - Increase the number of properties being left vacant (willing to pay the cost)
 - Lower tax rate may decrease revenue but offset by higher vacant properties
 - Manage fairness and unintended consequences through exemptions rather lowering the tax rate for first year vacant
- A higher EHT rate **may**:
 - Increase tax planning & evasion (and increase the audit resources required)
 - Increase impact unintended consequences of the tax
 - Decrease revenue with property owners converting vacant units to occupied (objective of the tax)

- Current tax rate program is effective, simple to understand by property owners and simpler to administer by staff compared to a graduated tax rate program.
- Current rate of 3% is effective to balance the objectives of EHT, maintain non-compliance behaviors and provide funding source for affordable housing initiatives.

Question?