

Intelligence MEMOS



From: Rhys Kesselman
To: Ministers of Finance in BC and Ontario
Date: August 18, 2016
Re: **ATTACKING HIGH HOUSING PRICES BY MAKING PROPERTY TAX PROGRESSIVE**

In July the B.C. government legislated a steep property transfer tax on foreign purchasers of homes in the Metro Vancouver area. While the new transfer tax is overtly discriminatory by nationality, lacks key transitional provisions, and invites avoidance maneuvers, it is being eyed by other jurisdictions with inflated housing prices such as the Greater Toronto Area.

A better plan is a progressive annual property surtax on higher-valued homes, which tend to be the target for non-resident buyers. Homes valued below a specified threshold—such as \$1 million—would be totally unaffected by the surtax. Seniors might be granted a higher threshold.

To illustrate, the surtax could be applied at 1 percent on value between \$1 million and \$2 million, 2 percent between \$2 million and \$3 million, and 3 percent on value above \$3 million. A \$1.5 million home would bear annual surtax of \$5,000, with larger amounts applying to higher-valued properties. The thresholds and rate brackets could vary across a province to reflect differing regional house price patterns.

Two important features would accompany my proposal. First, each taxable homeowner would be able to credit against surtax their Canadian income tax paid in the previous year. Except for the highest-valued properties, this would insulate most resident homeowners from surtax.

Non-resident foreign owners, families whose main earner resides offshore, avid tax avoiders, outright tax evaders, and criminal workers would pay the surtax, to the extent they have paid little or no income tax to serve as an offset. Both domestic and foreign speculators in higher-valued properties would also bear surtax.

The scheme's other essential feature is that all homeowners would have the option of deferring payment of surtax until their home was sold (as B.C. already allows seniors on their regular property tax). This provision would cushion owners of higher-valued properties who are "home-rich but cash-poor."

Such a new tax can be justified to improve fairness within the overall tax system, and also to reduce the tax biases that encourage over-investment in housing. Home ownership is the most favourably treated form of wealth aside from pensions, RRSPs, and TFSA's. The rental equivalent value of an owner-occupied home is tax-free; if the owner were to hold that wealth in other investments, the returns would be taxed.

Moreover, the capital gains realized upon the sale of owner-occupied homes are fully tax-free in Canada regardless of magnitude, unlike in many countries including the United States. Unlike almost all countries, Canada does not impose estate taxes, so large and fortuitous gains on homes flow tax-free to beneficiaries.

While not a cure-all for the problems of Toronto and Vancouver's over-priced housing, this scheme would help in several ways. It would reduce the returns to both foreign and domestic speculation on rising home prices. It would raise the cost of holding vacant homes, thereby increasing the rental supply. The scheme would also discourage the construction and renovation of high-priced homes and thereby release land and labour for more moderately priced housing.

Unlike B.C.'s steep property transfer tax on foreigner buyers, my proposed surtax would be discrimination-free, cover both previous and new purchases, be immune to avoidance, and improve both equity and efficiency in the taxation of housing.

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