



# BC's "Speculation Tax"

## Shortage of Economic Impact Information

### No Shortage of Opinions

*Submitted by Carmen Sparg, President Kelowna Chamber of Commerce*

It's time to stop the speculation and start the collaboration.

Working closely with other Okanagan Chambers, local industry associations like the Urban Development Institute (UDI) and the Canadian Homebuilders Association (CHBA) – our Chamber is well-positioned to comment on major issues of the day. Hence, we're taking on the proposed "Speculation Tax".

Taxation is part of living in a great place like Canada, like BC. As the BC Government's own website says, "The United Nations Human Development Index consistently ranks Canada as one of the world's best countries to live in." Businesses and residents like tax certainty. They like being able to predict what the cost is of doing business, or of living, in a certain place, year over year.

Layering on a new tax, without upfront consultation, or economic justification, making rapid-fire adjustments to push-back, failing to research and publish accurate economic validation – this isn't good tax policy. It isn't good government policy. Yet, BC is living under the shadow of this proposed Speculation Tax that doesn't address the core issue of housing affordability.

The Kelowna Chamber has been the voice of business in the central Okanagan for over 100 years. Listening to and representing more than 1200 member-businesses through good times, bad times, and consistent growth. Member input provides a network of information to and from every type of industry, large and small, construction and tech. Our Chamber finds out every day "what's on our members' minds" and can accurately reflect most of the needs, opinions and issues of businesses small, medium and large and also our residents and visitors.

Working closely with other Okanagan Chambers and elected officials at every level – municipal, provincial, federal, and Indigenous governments – our Chamber is well-positioned to comment on major issues of the day. Hence we're taking on the proposed "Speculation Tax".

On September 12 in Whistler, just outside the meeting rooms of the UBCM – the Union of BC Municipalities – a number of mayors from around the province gathered to sign a letter condemning the tax in its current form. Local governments led the charge, asking the provincial government – through six resolutions at the UBCM Convention – to, among other things – respect local Government autonomy and ensure communities have a choice to opt in or opt out; to do away with the tax; to shelve it while economic studies were conducted and published; and to prove to the residents of BC and Canada how the tax would create affordable housing in BC.

Since this new tax was introduced in February, the reaction from homeowners, vacation homeowners, workers in the construction industry, local politicians and builders and residents has been swift, loud, long and shows no sign of abating.

Is there a detailed, accurate economic impact study to support the government's position on this new tax showing that it will somehow make housing more affordable for average working families?

The answer is "no". So, we must rely, at least so far, on economic information that is gleaned from affected municipal tax records, through major media channels, from listening to parliamentary sessions, and close examination of statements from the government.

Two days after the Budget was tabled in February, Finance Minister Carole James said "If you pay income tax in BC, you are not captured."

Let's examine the Government position "Only one per cent of British Columbians will have to pay the tax." This has been the government's stance since they made the first round of changes to the tax March 26th after its February introduction – exempting some communities and changing the tax levels for some individuals.

During legislative debate on the budget that followed, later in the spring, the government estimated that 32,000 homes will be trapped in the taxation areas. Of those, stated the province, 20,000 are owned by BC residents, 2,000 by Canadians from other provinces, and 10,000 by foreigners.

Therefore, the Speculation Tax *will* hit British Columbians the hardest: nearly two-thirds of those "speculators" to be taxed are British Columbians. Foreigners, one-third. Those from out of province and foreigners will pay more as they are taxed at a higher rate. The revenue taken from British Columbians remains significant – on an estimated \$12 billion worth of recreational properties and second homes, owners will be assessed an estimated \$60 million a year.

James justifies this wealth tax as "ensuring that people have an opportunity to be able to have affordable housing."

How does taxing 20,000 British Columbians a brand-new \$60 million deliver housing to other British Columbians who require – or want – affordable housing? The tax is targeted to go into General Revenue and likely means money is to be taken from market housing in one community and spent on non-market housing in another. After paying out \$60 million, those 20,000 British Columbians may require affordable housing themselves.

The proposed Speculation Tax *is* a wealth tax, and when you look at many of the owners of properties who have owned their "second homes" for 10, 20 and 30 or more years, it is an additional tax. They aren't speculating. Many targeted owners are certainly not wealthy. Working hard so that you can purchase a cottage, or a city apartment will no longer be a goal. Pre-retirement to BC, bringing your pension monies with you, and paying tax in BC and buying services and goods, for many, just won't happen.

The City of West Kelowna estimates that the province's non-refundable tax credit to offset the new Speculation Tax at a proposed rate of 2% on a \$500,000 value home would require an annual income level of \$122,000. That income level is far beyond that of many families or couples or retirees on a very modest home value. Final application details of the tax credit have not been published by the province as of summer 2018, and are not expected until October 1, 2018, when the Legislature reconvenes, so it's no wonder that many are concerned.

In Whistler, on September 12, local government leaders, including Mayors from both targeted and non-targeted areas, spoke about the pain the proposed tax was causing businesses, residents, and visitors to their areas. They also made it clear that the way the tax was introduced, without prior consultation with local government, runs contrary to the principle of respect for local government as "An order of Government" as entrenched in BC's Community Charter. Many are also concerned that their community may be added to the targeted areas.

The tax is driving visitors away from homes and out of areas they have frequented for years. The Speculation Tax is isolating British Columbia from

its neighbours, isolating community from community. Housing affordability is important for everyone. Developers help address this issue by building out new developments, new rental housing, and paying their fair share in development costs and taxes to all four levels of government. Cancelling new developments does not increase housing stock.

All Canadians should be opposed to this tax. It's un-Canadian, doesn't increase housing stock or affordability, and won't add one iota of gleam or gloss to BC's reputation as a world-class destination. "Alberta's Playground" will have to be – in Alberta. Or anywhere but in BC.

The BC Chamber adopted a resolution at its May 2018 annual policy conference recommending the government eliminate the tax altogether, and if not, to publish a detailed economic survey and establish key performance indicators which measure the tax's performance against the government's stated expected outcomes. The Kelowna Chamber spearheaded this effort.

It's said one should never criticize without offering alternatives. Are there any alternatives to the current tax proposal? Yes. Many have been suggested, from opt-in/opt-out, to outright scrapping as expressed by many local government leaders.

For something fresh, we turn to Stephen Bigsby, resident of Toronto, a third generation Victorian, who served as Director of Economic Development for Metropolitan Montreal from 1980 to 1995, and owner for ten years of a condo in Esquimalt. He grew up in BC, graduated in economics and political science from the University of Victoria. Student president in the 1966-1967 school year, he began his career with the Trade Commissioner Service with postings in Ottawa and Milan, Italy. He returned to Canada as Senior Industrial Commissioner (Europe) for Metropolitan Montreal's Economic Development Agency, where he served as director from 1981-1995. He was Vice-President, Canadian Commercial Corporation, 1995-1997 and Executive Director, Association of Canadian Pension Management, from 2000-2006.

With Stephen's assistance, we offer the following four *alternatives* to the Speculation Tax in descending order of preference:

1. Eliminate the tax for any Canadian resident who pays income tax in any jurisdiction in Canada. Easy, clean, simple, fair. This was the primary recommendation in the BC Chamber policy unanimously adopted by our BC Chamber membership in May 2018.
2. Apply the tax to vacant properties only, using municipal home owner grant reporting forms. It's how we Canadians have reported and paid our property taxes for years.
3. Create a new refundable tax of ten per cent on housing purchases made by outside-BC buyers after January 1, 2019 or later. Should the Buyer move to BC within, say, three years, the tax would be 100% refundable, then on a sliding scale reaching zero after year six.
4. Create a provincial services surtax on any second properties owned by outside-BC buyers after January 1, 2019 or later. This levy would be set at about one-quarter of one per cent of property value, increasing average property taxes by about one-third. If owners subsequently move to BC, the surtax would cease.

While the first two options are clearly the best, the second two may help cool demand. Any one of those four options would be superior to the flawed, misguided, unfair, un-Canadian Speculation Tax. None of the four are retroactive (as is the Speculation Tax).

We continue to work on behalf of all our Chamber members in the many affected communities within the tax boundaries, as well as for those who fear their community will be next in line for the government's random application of this misguided tax which is harming businesses, residents, visitors and BC's reputation.

#### A Footnote on Affordable Housing

It is the belief of our Chamber – and many others – that the provincial government's focus on the Speculation Tax will not make a positive contribution to affordable housing. The Chamber supports the need for affordable housing. Lack of affordable/attainable housing constitutes a huge gap in our province, as it is in many jurisdictions in North America.

This need can be addressed, not through imposition of punitive taxation, and driving away of developments, but by focusing on new rental properties; and, working with the construction sector, local government leaders and other stakeholders. For years, our social ethos has dictated single family, detached home ownership as the peak of achievement. We are already rapidly moving away from many of those attitudes, but we need to make rental housing both attractive and viable. New market rental properties are slowly coming on the market in some BC cities; many more are needed, and quickly. Professional landlords are needed. We need new zoning regulations. We need provincial and municipal politicians to have the courage to insist on new rental properties in historic single-family neighbourhoods.

Since developers don't work in a business model wherein they can supply the longer-term capital for successful rental housing, public assets should be tapped. The British Columbia Investment Management Corporation (BCI) manages \$135.5 billion in pension assets for BC's public sector employees and retirees.

Since BCI, through QuadReal Property Group already manages 12,000 rental units across Canada, they are well-positioned to expand their holdings. When you add to this potential (all funds in Canadian dollars, insulated against international monetary fluctuations), the idea of making public lands available for market rental housing, we could be looking at an immediate, long-term, affordable solution to bring rental housing into the 21<sup>st</sup> century and make it available immediately for workers, residents, our children and our grandchildren.

The Speculation Tax will not do that. It is not too late for the government to focus on the good ideas in Budget 2018, to abandon the divisive Speculation Tax as unworkable, unpopular and mis-titled. Further amending the proposal, while possible, keeps the negative energy alive.

Eliminate the Speculation Tax. And then we can all move forward.

**Carmen Sparg**

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