09. ANTI-CANADIAN TARIFF – PRESSING THE PAUSE BUTTON ON BC'S PROPOSED SPECULATION TAX

ISSUE

In its 2018 Budget Presentation the BC Government introduced a proposed new tax entitled "A speculation tax" as one measure among many aimed at addressing the housing crisis in BC. While previous policy efforts in this area have been targeted at the Greater Vancouver area, this Speculation Tax is now suggested to be applied to a number of communities and regions outside the lower mainland.

Business and community leaders across the Central Okanagan, Nanaimo Regional District and elsewhere have raised concerns over the potential unintended consequences of imposing such a tax on those who do not currently pay income tax in the Province of BC but do contribute greater to local economies through investment and the procurement of goods and services.

These leaders are asking the government to step back from implementing the "Speculation Tax". A full economic impact study is required, and the tax should be scrapped as currently tabled by the Province.

BACKGROUND

Since the proposed speculation tax was first announced, chambers, trade associations, and economic development officials have been inundated with calls, letters and emails from business leaders in the Okanagan and elsewhere in British Columbia who are extremely concerned about the direct and indirect economic impact of this proposed tax.

They are equally concerned about the total lack of consultation on this proposed tax. Developers have customers who are canceling contracts and/or looking to re-evaluate intended investments. The outcome is less economic activity, less employment, and ironically, less supply for the housing market. The development community cannot see how the proposed speculation tax will help to increase affordable housing in the Okanagan and in fact, they believe it may result in just the opposite.

Further, seniors in Alberta and elsewhere who were in the midst of transitioning to the Island and the Okanagan as part of their retirement plans now fear they will face unexpected and substantial taxes. This is "taxation without representation" which makes this a truly anti-Canadian tariff. The uncertainty around this proposed tax is already forcing many to rethink their retirement plans. Surely taking money out of the hands of seniors isn't the intent of the proposed tax?

Some of these individuals have owned homes locally for fifteen years and longer, paying property taxes to the local government as well as contributing to the local economy through the goods and services they purchase while here. They do not understand why they are the target for this punitive tax.

The mere mention of this proposed tax has already damaged BC's brand in Alberta and that is of concern to many of our members who rely on our neighbours to the east to drive our tourism economy.

A recent report prepared by the City of West Kelowna[1] noted a number of reasons why that community should not be included among those targeted with this tax. Among other things the report noted that the tax will likely not produce the results it is intended to do, making housing more affordable. The report also notes:

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1 Speculation Tax Impacts Report, City of West Kelowna March 2018.

1. Questions as to why West Kelowna is included while other similar communities are not;
2. The creation of an unfair and competitive advantage for neighbouring communities not subject to this tax;
3. The risks to affordable and rental housing in West Kelowna; and
4. The clear threat to the City of West Kelowna's economic landscape and its ability to fund community infrastructure.

The same report also notes that the realities of the housing market in the Metro Vancouver and Fraser Valley are significantly different than that of the West Kelowna/Kelowna area.[2]

Further, based on statistics from the Okanagan Mainland Real Estate Board there is in fact a stronger argument that those relocated from the lower mainland are having a far greater impact on rising house prices than anyone from Alberta or elsewhere in Canada.[3]

The report from the City of West Kelowna along with similar reports from industry organizations have also made the point that those that will be subject to this punitive tax are unfairly being characterized as speculators.

Given the community's attraction as a vacation destination, many of the City of West Kelowna's non-resident property owners purchased these properties many years or even several generations ago. Such owners are not speculators and contribute to the economy faithfully each year as they return on their vacations. Vacation home owners also pay annual property taxes in West Kelowna.[4]

Because of the very little amount of property held by foreigners (1.8% of market) and a similar low number of out of province investors, the likelihood of either tax actually making housing for the average family more affordable is very remote. It will though, remove tax dollars from the communities targeted by this tax and provide the province additional funds flowing into General Revenue. It is suggested these funds will help the province achieve its promised investment in non-market housing but which that is a laudable goal, it won't likely make housing more affordable for average working families.

It is also worth noting that the policy proposal (B.C. Housing Affordability Fund)[5] developed by the group of academics in Vancouver for which the province has based this tax initiative, made special note that it should not be implemented in any community where the local government was not in favour of the tax.

The authors further suggested all funds raised in a specific community should be reinvested in that community. This of course could only be achieved if the revenue from the tax flowed directly back to the local government, something that is contrary to the province's current direction.

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2 According to BC Statistics between 2007 and2017 housing sale prices in the Okanagan Mainline Region rose from $387,523 to $497,600. The net increase in housing price is 28.4%, compared to the Fraser Valley, which saw a 65.6% jump, from $423,761 to $701,842, and Greater Vancouver, where prices soared 80.7%, from $570,795 to$1,031,546. The report further notes that increases in property values in the Okanagan are also distorted by the high value of waterfront properties which obviously there is a finite number of. If you exclude those properties, the typical house price in both West Kelowna and the City of Kelowna is in fact quite different.

3 When including waterfront homes, the average property value is $634,422. If multi-million dollar properties, many that are non-owner occupied and subject to the Speculation Tax, are excluded, the typical home value in the City of West Kelowna then averages out to only $515,711.

4 Speculation Tax Impacts Report (Page 10), City of West Kelowna, March 2018.

5 http://www.housingaffordability.org/.

Another argument raised by the cities being targeted for this tax is the fact that it is creating an uneven playing field where neighbouring communities benefit by not having to deal with the tax. Investors looking to invest in a specific region will then chose the neighbouring community as a cost saving measure. This ironically will result in an increase in urban sprawl as smaller communities adjacent of West Kelowna, Kelowna and Nanaimo will all be more attractive for investment. Lake Country, Coldstream, Summerland, Peachland and Penticton in the Okanagan as an example, have all seen housing prices and growth in population rise at a rate above the province average. The same conditions apply on Vancouver Island where adjacent communities are set to benefit from their neighbour being taxed.

Other important observations that have been made by local government officials and developers include:

- If out of province home owners who currently rent their property are subject to this tax they may divest themselves of the property thus reducing the amount of rental units available in that community;
- The implementation of this tax fails to recognize that in a free market environment, the high demand and low supply has prompted many developers to invest in both Kelowna and West Kelowna. This is private investment that is driving a significant amount of housing stock that will increase supply and reduce demand in the next few years. All indications are the private sector will respond if the government refrains from injecting itself into the market; and
- If there is a lack of growth because of a dis-incentive speculation tax, some communities that rely on future growth projections to help provide much needed capital for infrastructure could face a crisis. It would leave current taxpayers (British Columbians) in the communities targeted for this speculation tax having to pay a larger portion of needed capital thus seeing a significant jump in their property taxes. If property taxes have to be increased because of a lack of growth, not only will existing home owners be impacted, businesses will also see their property taxes increase thus causing even more harm to the local economy.

Finally, it is also worth responding to a CTV News Insights West survey[6] which is being touted as a good gauge on the sentiment of the B.C. public related to the Speculation Tax. This question was asked without any context or detail provided in advance as to the significant impact on the economy of penalizing out of province investors. The question was misleading as it asked people what they thought of a tax that was being imposed on "someone else". The responses are not unexpected, but it did little to facilitate well-informed discussions around important fiscal policy.

The report from the City of West Kelowna makes the observation that the question does not accurately reflect the true nature of the proposed tax. Rather than specifying all people, including BC residents who will be negatively impacted by the tax, the question focusses opinion around those who do not pay tax in BC, which skews the results. As shown in this document, the majority of non-resident homeowners in West Kelowna are BC taxpayers. Insights West staff indicated that the survey was scientifically accurate and polled mostly lower mainland residents. With no uniform polling conducted across the province, and specifically no proper sampling of the Okanagan, Insights West admitted that the numbers could not be used for the Okanagan area. In addition, the question does not mention that the tax is charged annually; and the question seems to indicate that the tax is applied to non-residents rather than speculators.[7]

6 https://insightswest.com/news/british-columbians-welcome-budget-proposals-on-real-estate/.

7 Speculation Tax Impacts Report (Page 20), City of West Kelowna, March 2018.

Given the modest number of property holders moving from Alberta, Saskatchewan and Ontario compared to a much larger number from the lower mainland, we would suggest it is those moving from elsewhere in BC that are having far more influence on rising house prices than foreign buyers or those who hail from another part of Canada.

These homeowners from outside BC also contribute a significant amount to the local economies of Nanaimo, Kelowna and West Kelowna. Many of these homeowners spend an average of four to six months in the Okanagan, with monthly trips, and extended summer holidays – that amounts to a lot of groceries, home improvements, recreational spends, fuel purchases, and entertainment. Business owners are concerned about losing this lucrative influx of cash to their businesses.

If the government is truly trying to go after speculators who are negatively influencing the housing market, we suggest an excise tax at the time when the property is sold – if it is "flipped" within a specific time period – as that approach would be more direct and transparent.

THE CHAMBER RECOMMENDS

That the Provincial Government:

1. Eliminate the tax altogether;

2. Adopts a strategic framework before considering similar tax policy in the future that includes:

    a. Clarifying through detailed economic data how housing will be made more accessible and affordable as a result of this type of taxation policy;

    b. Undertaking Economic Impact Studies to determine if the new tax will actually achieve its desired outcome of making housing more affordable;

    c. Working with the UBCM (Union of BC Municipalities), local government officials, and economic development agencies to examine the situation in the cities currently subject to the proposed tax to better understand what is impacting housing attainability and more fully explore tax incentives or public policy changes to encourage development of non-market and rental housing;

    d. Monitoring supply-demand through 2018-2019 to see if the significant amount of housing that is poised to come on the market in the cities targeted for this punitive tax, improves the availability of attainable housing and rental stock; and

    e. Establishing clear parameters and key performance indicators that will be used as a tool to determine whether such an area specific tax should be implemented so as to ensure it is a temporary measure that will be removed if local indicators/conditions improve.

Submitted by the Kelowna Chamber of Commerce

Supported by the Greater Langley Chamber of Commerce, Greater Nanaimo Chamber of Commerce, Greater Vernon Chamber of Commerce, Greater Westside Board of Trade, Kamloops Chamber of Commerce, Kimberley & District Chamber of Commerce, Mission Regional Chamber of Commerce, Parksville & District Chamber of Commerce, Penticton & Wine Country Chamber of Commerce, Qualicum Beach Chamber of Commerce, Terrace & District Chamber of Commerce and South Shuswap Chamber of Commerce