The Speculation and Vacancy Tax: An Explainer

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1. Context

There is currently debate in the media surrounding the Speculation and Vacancy Tax (SVT). The tax was first announced in February 2018 as part of the provincial budget, and was subsequently amended in a few respects before being passed in the B.C. legislature in November 2018.

Debate about any new policy is healthy and welcome, but it is important that the debate be based on a solid understanding of the policy at hand. If there is confusion about the details of the policy, then both proponents and critics can mislead the public with inaccurate claims. This document seeks to provide British Columbians with a better understanding of the tax, and its rationale, so that they can better make up their minds about it.

In broad terms, I am a supporter of the tax, so readers should note that from the outset. In my view, too many opponents of the tax have been misleading in their campaign against it, and that's what has motivated me to write this document.

So, what are the basics of the tax? The SVT applies to five major urban areas of B.C.:

1. Metro Vancouver (excluding Bowen Island and Lions Bay)
2. Fraser Valley (Mission, Chilliwack, Abbotsford)
3. Capital Region District (Victoria) – excluding the Southern Gulf Islands, Salt Spring Island and the Juan de Fuca Electoral Area
4. Nanaimo (Nanaimo; Lantzville)
5. Kelowna (West Kelowna; Kelowna)

These are the main urban centers in the province. The SVT is deliberately aimed at these areas because they are facing some of the most intense housing affordability challenges and because they
are not considered resort areas. Resort areas such as Whistler have intense housing challenges for local working people too, but it is understood that a resort-type dynamic is the economic model for these areas. Wealthy people from elsewhere owning much of the property is the typical pattern for resort areas, for better or worse.

For the major urban regions, however, the government intends to discourage this kind of resort dynamic through the tax. The problem with becoming a resort area is that housing becomes very expensive for local working people and local innovative businesses face intense challenges when they try to expand, in large part because it is so hard to attract entrepreneurial people when housing costs are that high.

As its name suggests, the Speculation and Vacancy Tax tries to discourage a resort dynamic in two distinct ways. The first component of the tax (“speculation”) is aimed at foreign ownership of housing, whereas the second component is aimed at vacancy. Unfortunately, in the media debate, the tax has frequently been depicted as only about vacancy. Some have referred to it as simply an “empty homes tax”, for example, even though that is inaccurate.

The two components have distinct rationales and enforcement mechanisms, though, so it is helpful to discuss them separately. This is how I proceed below, discussing first the “speculation” component and then turning to the “vacancy” component. Since the “speculation” component will likely have the largest impact, I discuss that first. For each component, I explain the rationale and then the mechanics of the tax. Following this, I address some common criticisms of the tax. With this information in hand, British Columbians will hopefully get a better sense of where they stand.

2. Speculation component

Rationale/motivation

Housing prices are very high in urban British Columbia, relative to other parts of Canada and other countries. There has been a great deal of debate about why this is the case, but one important factor has been relatively high rates of foreign ownership in housing. It’s not the only factor, but it is an important one. Foreign ownership puts upwards pressure on housing prices relative to incomes because the foreign money being used by wealthy international buyers is disconnected from the local labor market. As a result, housing prices may cease to closely reflect local incomes and instead reflect the purchasing power of an international elite. This makes it harder for local working people to buy attractive property in a market, since they are competing with wealthy people from around the world.

What matters most here is where the money is coming from; citizenship is secondary when it comes to understanding price movements. (This has policy implications, discussed below.) Thus a good

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1 Kelowna is a debatable case and is discussed below.
2 In the media, the tax has been depicted as applying mostly to vacant second homes owned by British Columbians. The figure to bolster this view has been the estimate by the Ministry of Finance that roughly 32,000 British Columbia residents will be affected. What has been overlooked is that this figure includes satellite families. As described below (section 2), satellite families don’t pay substantial income taxes in B.C., and the tax is meant to address this.
The definition of foreign ownership is “housing owned primarily on the basis of foreign income or wealth”.

The impact of foreign ownership has been felt most intensely in (Metro) Vancouver, yet the run-up in prices in Vancouver has also had an impact on housing prices in other areas of the province. This has occurred in part as property owners in Vancouver have sold their real estate at a high price and taken that substantial purchasing power to other urban regions in the province. This has led to sharp price appreciation in other markets in recent years – what is sometimes termed the “ripple effect” – yet this dramatic appreciation has been unrelated to changes in local incomes, which has generated affordability challenges in these other markets too.

The question then becomes: why has British Columbia experienced such high rates of foreign ownership? The answer is complex, but there are a few important contributing factors. First, B.C. is a beautiful, temperate, stable place. For wealthy people from around the world in unstable regimes, this is an attractive combination – and it encourages them to buy property here. Second, there is the history of the investor immigration programs, which effectively sold passports or residency to wealthy families around the world. This program has admitted tens of thousands of individuals into the province over the past 30 or so years. While the intention of the program initially was that investor immigrants would engage in entrepreneurial activity and spur local innovation, the results were far less than expected (documented below).

This happened in large part because of the third reason: our current tax system effectively subsidizes foreign ownership. To understand this point, consider the amount of income taxes that a high-earning local individual would pay on their way to owning an expensive property in Vancouver. Each year, they are asked to pay a substantial portion of their income to the government. That revenue helps to pay for a wide array of social services and public amenities – health care, education, pensions, social assistance, transit infrastructure, public safety, environmental protections, etc. That is part of the social contract in Canadian society, and it helps make the country a vibrant, peaceful place filled with opportunities for people from all income backgrounds.

Now imagine that a wealthy person could access or enjoy all of the same social services and public amenities as the high-earning local individual, but not pay income taxes. That would be a huge advantage in the housing market, and a great bargain. Unfortunately, it is not hypothetical. If you earn your income abroad and spend most of your time out of the country, you can file with the CRA as a non-tax resident in certain cases, even if your family resides here. This allows you to occasionally visit the country, but to avoid paying income taxes commensurate with your income or wealth, and in the meantime your family enjoys the public amenities and social services year-round. This is the so-called “satellite family” situation.

Many investor immigrants discovered this “loophole” and never looked back. The history of the investor immigration program (IIP) confirms it. In the first ten years after landing, those who entered through IIP paid on average $1,400 in income taxes, a federal government study found, despite the fact that they had to be millionaires to qualify for the program in the first place. That didn’t stop them from purchasing expensive property in the Vancouver region, however. In recent data generated by Statistics Canada, the average assessed value of properties owned by investor immigrants was roughly $2 million.
While the IIP was canceled largely because of these dynamics, the Quebec version (QIIP) continues to this day, and many of those in the QIIP end up in Vancouver (roughly half). There are also other potential channels of so-called “wealth migration”, including through the points-based stream of immigration and provincial nominee programs.

The issue is that over time this dynamic will mean that much or even most of the expensive property in a market will come to be owned by wealthy individuals with limited connection to the local labor market or local economy, and who pay next to nothing in income taxes. This is how resort towns can emerge, and the impact on housing prices, local innovative businesses, and social cohesion becomes unmistakable (e.g., imagine being a young working person competing in a tough housing market with millionaires you subsidize).

One option would be to address this “loophole” through a reform of the tax code and the CRA’s enforcement practices. The problem is that it is not straightforward to fix the “loophole” that way. The internal incentives in the CRA do not encourage lengthy attempts to investigate satellite family arrangements, partly because cross-border investigations are extremely hard – especially when individuals are not declaring all their income to their “home” governments too – and partly because the situation can be technically legal according to our tax treaties. In other words, we would need to renegotiate tax treaties, overhaul the CRA’s standard operating procedures, and invest massive resources to crack down on this problematic dynamic – and we would need to motivate a federal government to do all this, even though it’s not a widespread concern in other parts of the country…

Or we could address the weakness in the tax system in a focused, direct way: impose a property surtax on families who have most of their income earned abroad. This would address the problem of subsidized foreign ownership. And the tax revenue collected would be claimed by the B.C. government – which is where the social services that satellite families use are being delivered. This is what the speculation component of the SVT seeks to do: it addresses a tax avoidance problem and thereby addresses a housing affordability problem too.

Why is it called a “speculation” tax, then? Because many have been speculating on the resort dynamic persisting and intensifying, driving housing prices ever upwards. Speculative behavior in a housing market is premised on expectations of strong price gains. By trying to more closely connect housing demand to local incomes, which tend to grow slowly, the speculation component undercuts those speculative expectations, and thus reduces speculative behavior.

**Mechanics**

The speculation tax attempts to achieve its purposes by imposing a 2 percent annual property surtax on homes owned by foreign owners and satellite families, unless they are rented out to “arms-length tenants” (e.g., not family members). So, for example, a $1 million house will be charged $20,000 per year for a satellite family. *This part of the tax applies even if the satellite family or foreign owner resides in the property.* The idea is that if the family is not declaring income in B.C. for tax purposes, then they will pay through the speculation tax: they can pay income taxes here or they can pay the speculation tax, but they can’t avoid their tax responsibilities simply by declaring income abroad. For all other British Columbians, their primary residence is exempt from any tax (see also section 3).
There is also a rebate provided to foreign owners (non-permanent residents or non-citizens) and satellite families equal to 20 percent of the income they declare in B.C. Thus, if a foreign owner who works and pays taxes in B.C. is hit with the speculation tax (e.g., someone who recently moved here for work), they will be able to get a substantial rebate. The logic is that those who are tax-resident in B.C. will be compensated for their tax contributions – they are paying their fair share and will be treated as such.

The enforcement of this component depends on connecting income tax data and citizenship status to property ownership in a comprehensive way. This is a major part of what the declaration form mailed to British Columbians is trying to achieve. As homeowners are seeing, one part of the form asks whether more than half of the household income is being earned internationally, while another asks about citizenship status. This process allows the government to identify where the speculation tax applies and where it doesn’t. Given the amount of money at stake, there may be some false reporting. This is why gathering the data is so crucial: once the government has income tax data linked with property ownership, they will be able to note cases of major disparities in declared B.C. income and property values, which indicates a satellite family dynamic. A satellite family declaring $20,000 in income but living in a $2 million house will immediately shoot up red flags – an extreme ratio in those two figures will suffice to set off alarms. This in turn will allow an audit system, in case households are not honest on their declarations.

That audit system will then use past tax data to ascertain whether the disparity is based on legitimate grounds (e.g., a spell of unemployment) or related to a pattern of foreign-funded consumption and housing ownership activity. This is why the declaration process includes one key piece of new data from respondents: their social insurance numbers (SINs). The government has provided little information about the audit process in order to better enforce the tax: if they spelled out the methods employed, then those seeking to illegitimately dodge the tax might use that information to better do so. The penalties for misrepresentation of a satellite family or foreign owner situation are also substantial. There will be a doubling in the annual tax rate to 4 percent for the relevant years of misrepresentation.

Understanding the nature of the enforcement system also makes clear why the declaration needs to be filled out by all homeowners in affected areas: if a declaration was not required, then satellite families and foreign owners would simply not declare. The declaration system forces them to declare and gives the government the tools to effectively audit the system.

An analogy could be made to road checks aimed at reducing drunk driving. Road checks slow everyone down to ask them if they’ve been drinking. If there were two lanes, one designated for “drunk drivers” and one for “sober drivers” – where the latter were allowed to breeze through – then drunk drivers would just drive in the “sober drivers” lane and defeat the entire purpose of the exercise. Gathering the data is the price we pay, then, to sharply curtail tax avoidance behavior, or outright tax evasion.

At this point, foreign owners and satellite families are able to avoid a speculation tax liability if they rent out their properties to an arms-length tenant, in whole or in part. For many property situations, such as small condo units, renting out a part of the unit will not be feasible. In those circumstances, the tax will apply unless it is rented out fully. So, for instance, foreign students who own and live in
condos will have to pay the speculation tax. For larger properties, however, this may provide a way out of the tax. Many wealthy families will not be keen on renting out part of their property, though, and this may limit the extent to which this approach is taken. In my view, this issue will be something that the government needs to watch carefully – overall, I don’t see good grounds for maintaining the partial unit rental exemption for foreign owners and satellite families.

3. Vacancy component

Rationale/motivation

In recent years, major urban centers in B.C. have experienced very low rental vacancy rates. In Vancouver, Victoria and Kelowna vacancy rates have all been below 1 percent, while Nanaimo has had vacancy rates around 2 percent. In fact, Kelowna reported a vacancy rate of just 0.2 percent in 2018. Such low vacancy rates have led to sharply rising rental costs, and to rising rates of homelessness, as those on the margins are squeezed out of the rental market. While the emergence of highly unaffordable property ownership is a major component of the housing crisis, and merits policy action, the word “crisis” certainly applies to these kinds of rental markets, since in many cases these are the most vulnerable people in urban B.C.

One of the answers to such low vacancy rates is to build lots of new rental stock. While there is limited evidence that rates of rental construction correlate closely with vacancy rates, one thing is clear: building new housing stock takes time, and does not provide relief in the short-term. B.C. has experienced a building boom of historic proportions, yet vacancy rates have remained stubbornly low. In some respects, the building boom has in fact exacerbated low vacancy rates, because it draws in construction workers and other related job-seekers to urban markets, thereby straining the existing rental stock. As far back as the housing stats go, markets like Vancouver and Victoria have never seen close to this much building take place at once (Figure 1 below).

What this means is that alternate methods of delivering rental stock may be needed, at very least in the short-term. This has spurred first the City of Vancouver, and now the province with the SVT, to encourage largely unused housing units into the rental market with vacancy taxes. The logic is that by imposing a tax on vacancy, owners of largely vacant homes will be encouraged to rent out their properties. For many, the notion of housing units sitting empty, especially as speculative investments, in the midst of a housing crisis is unacceptable (see Figure 2 below).

There are some situations where the vacancy or underuse is for good reasons, however. In this case, we would want a vacancy tax to exempt them. That is what the government has tried to do, and which I describe below. The reader can judge for themselves whether they feel the government has gone too far or not far enough in exempting properties from the SVT.
Mechanics

From 2019 onwards, if a property in an affected area is left vacant for more than 6 months in a calendar year then it is potentially subject to a vacancy tax. For 2018, only 3 months of use is required for exemption. The tax rate and the exemptions vary based on different situations.

For tax residents of B.C., a tax rate of 0.5 percent applies on the assessed property value. The first $400,000 in property value is exempt from taxation, though, by virtue of a $2,000 tax credit. So a $350,000 property would face no vacancy tax, while a $600,000 property would face a $1,000 annual tax. For out-of-province Canadian owners, the same tax rate of 0.5 percent applies, however without the $2,000 tax credit. For satellite families and foreign owners, a rate of 2 percent applies, again without the $2,000 tax credit.
There are also a host of exemptions from the tax for owners.\textsuperscript{3} A largely vacant property is exempt in the following situations, with some conditions:

A. Medical treatment needs  
B. Spouses living apart for work reasons (with some qualifications)  
C. Spousal separation (divorce proceedings)  
D. First year of acquisition  
E. Damaged property or hazardous condition  
F. Bankruptcy  
G. Surrounding the death of an owner (including when deed is being transferred)  
H. Land is under development  
I. Where strata rules do not permit rental (for 2018 and 2019)

In short, many of the understandable reasons for vacancy are granted exemptions. That doesn’t mean that there won’t be some cases that strike the reader as unfair, but it does suggest that the tax is aimed at encouraging those units that can be rented back into the rental market.

Recall also that this applies to the major urban areas, so cabins will generally speaking not be subject to the tax. Kelowna, especially West Kelowna, is a tough case in this respect, and that constitutes grounds to proceed cautiously there, in my view. Belcarra, in Metro Vancouver, is also a tricky case.

Vacant units will be determined through the declaration process, as with the speculation tax component. The declaration system asks homeowners if non-principal residences are rented out or if they are eligible for one of the exemptions listed above – if not, then the property is assessed the relevant tax rate, which is held against the property.

The rules around rental are slightly different for foreign owners and satellite families: they are not able to achieve an exemption based on a rental to a “non-arms length” tenant. This makes sense, particularly in the case of satellite families – otherwise they could avoid the tax by simply deeming the property to be rented by the spouse or children (who already reside there). Foreign owners and satellite families are also not eligible for some of the exemptions listed above.

Dishonest declaration, as with the speculation tax component, will be enforced through an audit system. Here again the income tax data gathered through the declaration system will be helpful: if owners of secondary properties do not declare rental income, then that will shoot up red flags. Other methods will be used to determine if a property is largely vacant, but once more this is not being divulged by the government, presumably to frustrate successful avoidance behavior.

One final element of this part of the tax also merits note. The rental exemption that is granted to second (and third, fourth, etc.) properties only applies to long-term rental arrangements. AirBnB-type rental will not be exempt, at least when the unit is not a part of someone’s primary residence. This means that the tax will also discourage the proliferation of AirBnB, which has had a detrimental impact on rental stock during the housing crisis.

\textsuperscript{3} For details on these various exemptions, see: https://www2.gov.bc.ca/gov/content/taxes/property-taxes/speculation-and-vacancy-tax/exemptions-speculation-and-vacancy-tax/individuals.
4. Common criticisms (and rejoinders)

Any policy of the sort described above is bound to generate some criticism. The likelihood that all of the different design decisions — literally hundreds — will please everyone is precisely zero. Inevitably, some features of the tax will be seen as reasonable and effective, and others will be criticized. Some will want higher tax rates, some will want lower rates. Some will think extra exemptions should be granted, whereas others might think that the exemptions are already too extensive. The point to be made is the following, then: are your concerns related to specific aspects of the tax that could be addressed by tweaking those elements? Or are they about the motivations for the tax in the first place? The latter concerns will be hard if not impossible to address. If vacancy or foreign ownership don’t concern you, or in fact you positively like them — e.g., if you make money from that sort of thing — then you won’t be convinced by any of the defenses offered below. If you share the broad aims of the legislation, though, which most British Columbians do, then some of the standard criticisms of the tax can be addressed to good effect. The broad aims are in fact overwhelmingly popular, and are popular across the political spectrum. Figure 2 depicts support for the two components or aims of the tax in 2018 in Metro Vancouver. This poll was taken before the recent wave of disinformation by opponents, so support may have dropped since, but it nevertheless indicates overwhelming sympathy for the objectives of the tax.

Figure 2: Support for elements of the SVT in Metro Vancouver, by partisanship, 2018

Source: Angus Reid, 2018.
Common criticisms

“This is a cabin tax.”

The tax as it is designed now will not typically affect cabins. As explained earlier, it is targeted on the major urban centers of the province, and it deliberately excludes cabin-type areas within them (e.g., Bowen Island). While the initial version did include the Southern Gulf Islands, which would have included many cabins, the legislated version does not. The inclusion of Kelowna, especially West Kelowna, does represent a grey area, in my view. Kelowna is a summer vacation area for many, and so there is case to treat it as a resort-type area. The government has stated that it acted because it wanted to address the extremely low vacancy rate in Kelowna, and presumably excluding West Kelowna would have created an awkward administrative disconnect between the adjacent areas. In my view, there is a good case to exclude Kelowna in coming years from the vacancy tax component of the SVT, once the vacancy rate has improved. This can be negotiated between provincial and municipal leaders, as set out in the legislation (i.e., municipal leaders have opportunities for consultation with provincial officials on an annual basis).

“This is a wealth tax. It’s just a tax grab.”

As explained above, this is clearly not a wealth tax. The tax is aimed at foreign ownership and vacancy, not wealth. It is true that those who are subject to the vacancy part of the tax will tend to be wealthy, but the intention is not to tax them because they are wealthy – the intention of that part of the tax is to discourage vacancy. People with largely vacant homes in the major urban areas, and who do not qualify for one of the many possible exemptions, can simply rent out their unit if they wish to avoid the tax. There may be rare cases where renting out a property is not feasible, but these types of situations are (a) either addressed in the exemption conditions or (b) can be appealed on a case by case basis.

The notion that this is just a tax grab is also misplaced. The tax will certainly generate revenue, especially from satellite families and foreign owners, but again the tax collection clearly has a purpose distinct from revenue: discouraging foreign ownership and vacancy. Perhaps more to the point, the main source of revenue from the tax will likely be satellite families. These are situations where the households are effectively avoiding their tax responsibilities – far from a tax grab, then, this is simply making sure our tax system is not being gamed. A “tax grab” aimed at tax avoiders and evaders is something most British Columbians would likely be on board with (and so the polling indicates).

“The tax is misleadingly named, it doesn’t really tax speculators.”

The tax is called the Speculation and Vacancy Tax. The tax is therefore aimed at limiting speculation, not necessarily taxing “speculators”. Critics seize upon this second word, even though that is not the name applied to the tax – the government could have called it the “Speculator and Vacancy Tax”, after all. As explained in section 2, the tax will in fact powerfully undercut speculative expectations. The perception that global elites will endlessly snap up real estate in urban B.C. has helped spur
speculative expectations and activity. By addressing this expectation head on the SVT sharply discourages that kind of behavior. Indeed, this is what we have seen since the introduction of the tax. Frenzied bidding wars have become a thing of the past, and buyers are being patient, no longer worried that they risk being “left out forever”. This is reflected in low sales volumes and rising inventory. Pre-sale condos are also not being snapped up at the same frenetic pace, reflecting the weakening of speculative expectations. The SVT is not the only factor here – a slowdown in capital flight from China and the federal stress-test have also played a role – but it is one important impact of the tax.

“The tax will mostly hit hardworking British Columbians.”

Critics have seized on the government’s estimate that 32,000 B.C. residents will be subject to the tax, or two-thirds of the total. (It was estimated that it would also apply to 12,000 foreign owners.) What critics have neglected to mention is that the 32,000 figure includes satellite families. In other words, it’s possible, and I would say likely, that most of those subject to the tax have very little connection to the labor market at all. This point is reinforced by the differential tax rates: B.C. tax residents will pay a 0.5 percent tax rate, plus receive a $2,000 tax credit, whereas satellite families and foreign owners will be hit with a 2 percent rate. It is highly plausible then that the bulk of the tax will apply to the latter situations. This is indicated by the tens of thousands of households that likely meet the satellite family definition in Metro Vancouver. A recent Statistics Canada analysis found that around 23,000 households/property owners in Metro Vancouver entered through the IIP/QIIP and, as noted earlier, they paid on average $1,400 in income taxes a year. And the average assessed value for these homeowners was around $2 million. Even if only half of these households were liable, that would represent $460 million in annual revenue at current assessed values (11,500 x [$2,000,000 x 0.02]). There is likely to be some evasive behavior in the first year or two of the tax, and the tax rate will start at 0.5 percent for satellite families, so the figure may initially be lower than that, but if avoidance is effectively curtailed through stringent audits and enforcement, then the revenues are likely to be substantial.

“This tax won’t help affordability. You can’t tax your way to affordability. At most this might affect the price of single detached houses in expensive parts of Metro Vancouver.”

Critics have lined up to proclaim that you can’t address a housing crisis through a tax. Most local economists disagree, since over 40 of them signed on to a variant of this tax in 2016. If we effectively subsidize foreign ownership with our tax system, and that helps drive prices out of reach for many local income earners, then ending that subsidy will help reconnect or “re-couple” the housing market to the labor market, delivering improved affordability.

Some people are instinctively anti-tax, and there is not much that can be said to them. But taxes are potent at changing behavior because they affect people where they notice: the pocketbook. If we want to reduce vacancy or limit the tax avoidance associated with satellite families, asking politely or starting an information campaign is not going to do it. There needs to be a policy framework that discourages those situations in a tangible way, and that’s what the SVT represents.
Others have contended that this may lead to lower prices at the high end of the housing market, where foreign money has been most present, but that it won’t affect the entry level. This neglects the powerful effect that the price appreciation at the high end has had across the entire market – and over to Nanaimo and Victoria and up to Kelowna. The price escalation began at the high end in Metro Vancouver with the arrival of a surge of foreign money starting in 2014 (i.e., single family detached, or SFD), and that price pressure rippled out (Figure 3). By calming the high end, these measures will calm the entry level too. Indeed, that is precisely what we are seeing, where prices of condos in Metro Vancouver have moderated and begun to fall in the past year. The other housing markets are moderating too, as the ripple effect theory predicts (Figure 3).

Figure 3: The ripple effect in B.C., 2011-2019

![Graph showing the ripple effect in B.C., 2011-2019](image)

Source: CREA/Teranet.

4 The federal mortgage “stress test” also came into effect in early 2018, and this will have reduced price pressures too. Disentangling the relative impact of the stress test and the SVT in moderating prices is difficult at this stage, however the pronounced moderation in urban B.C. relative to other parts of the country indicates that the SVT had an important independent effect.
“Why don’t we just ban foreign ownership already?”

Some have urged banning foreign ownership as an alternative to the SVT. There are a few problems with this course of action. The first issue is that it’s not always clear what people mean when they advocate it. “Banning” could involve a few different possibilities: (i) not allowing foreign buyers (i.e., non-permanent residents or non-citizens) to purchase any residential housing stock moving forward; (ii) only allowing foreign buyers to buy new housing construction, as New Zealand has done; or (iii) forcing existing foreign owners (non-permanent residents or non-citizens) to sell their property on pain of eventual expropriation, along with (i).

The issue with (i) and (ii) is that they would not be particularly effective. With the foreign buyer tax, purchases by foreign buyers are already down substantially – they comprised around 2-3 percent of total purchases last year in affected areas. Removing that modest a percent of buyers from a market will not make a huge difference. Raising the foreign buyer tax to 30 percent would do effectively the same thing, and it’s already at 20 percent. Part of why it would not do much is that wouldn’t address the long build up in foreign ownership over time. As described above, over decades the housing market has gradually become de-coupled from the local labor market. Banning future foreign buyers would not address that. Nor would it address the more influential phenomenon of wealth migration, where wealthy people arrive through various immigration streams and yet remain disconnected from the local economy, since they continue to earn abroad (i.e., satellite families). The SVT addresses those things directly, as explained, whereas a ban of the (i) or (ii) sort does not.

At least (iii) would address the issue of the long build-up of foreign ownership. However it would do so in such a blunt fashion that tens of thousands of properties would likely be forced onto the market in short order, which would almost certainly lead to a crash. It is unlikely that any government would sign up for that kind of disruption, so those who want this extreme measure are likely waiting in vain. This type of action would also surely be challenged in the courts, and I imagine would have a difficult time surviving that process. In sum, “banning foreign ownership” is probably not a feasible alternative for those concerned with housing affordability.

“The SVT shouldn’t be applied to area X.”

The logic of the SVT is to discourage resort dynamics in the province’s major urban areas. If there are good grounds to allow that kind of dynamic, for example in Kelowna or small municipalities like Belcarra, then there is a case for exclusion. Those who want this to happen should push to have exclusions granted for the vacancy part of the tax. While some areas may have few issues with satellite family dynamics now, such as Nanaimo or Kelowna, there is a risk that those types of issues would emerge or migrate were the SVT to be eliminated entirely in those cities. To want the SVT eliminated entirely in an area is implicitly to want to shield tax avoidance from scrutiny.

“I don’t like the vacancy tax part.”

As Figure 2 shows, the vacancy component of the tax is somewhat less popular than the speculation component – though still popular. Critics have seized on this relative “weakness” to generate stories
of hard-done-by vacant property owners, in the hopes that they can get the whole tax scrapped. In the debate it has been very revealing that critics virtually never mention the speculation component. They realize that defending tax avoidance and foreign ownership is much harder to do, so they’ve tried to depict the tax as merely an empty homes tax, which of course it is not. Indeed, this was a major motivation for writing this document – to alert citizens to this sleight of hand, and how critics are effectively defending widespread tax avoidance by millionaires when they call for the tax to be scrapped. Moving forward, if and when the rental crises abate in the relevant cities, then a mitigation of the vacancy component might (and should) be considered. Throwing out the speculation component at the same time makes little sense, however.

“Some homeowners will be improperly hit with the tax if they miss a declaration.”

This is misleading. If a homeowner is eligible for an exemption and misses the declaration one year, they can apply for a retroactive exemption the following year and have it granted. In fact, they would have to miss a few declarations in a row to have any potential liability, since that retroactive exemption can be granted even after a few years, with the requisite documentation.

“How dare they make me fill out a declaration. I’m not a speculator.”

Recent weeks have seen exaggerated alarm in the media about the speculation tax declaration form. As most homeowners have noticed, or will notice shortly, this concern has been greatly overblown. For the vast majority of homeowners, the form will take less than five minutes online. In subsequent years it is likely to be even more straightforward, as the government may set up a “same as last year” option.

So why should all homeowners be made to fill out a declaration? Because this is the only way to reliably crack down on the widespread tax avoidance and evasion that has emerged in our major urban centers, and because it is necessary to enforce the vacancy part of the tax. As explained in section 2, absent a mandatory declaration, the government would have a much harder time locating satellite family situations – the data will help them link income tax data to property ownership in a comprehensive way, which will starkly reveal satellite family arrangements. So filling out the form is one small cost of cracking down on tax avoidance and evasion, which unfortunately were allowed to fester for many years.

Just as the police are not accusing everyone of being a drunk driver when they set up road checks, nor is the government accusing every homeowner of being a speculator. This is unfortunately the kind of overheated rhetoric that critics have resorted to, because they are not willing to engage the tax on its main substance – the speculation component.

A final, salutary benefit of the declaration form will be a better ability to locate and prosecute money laundering. Money launderers typically do not declare much in income, and they often leave properties empty as they launder the money, so both components of the audit system will help locate such activity.