

## INCREASING ACCOUNTABILITY, TRANSPARENCY AND LOCAL CONTROL OF THE SPEC TAX

### Issue

In 2018, the BC Budget introduced the speculation tax as one of several measures aimed at addressing the housing affordability crisis in BC.

Now, five years later, the tax<sup>1</sup> has been fully introduced and is applicable in a widening range of municipalities.<sup>2</sup> In addition, it has been joined by a new federal tax – lasting for a two year period – known as the Foreign Buyer Ban which applies to corporations and individuals but has numerous exemptions. Fines in the case of the federal tax are applied to industry players working with foreign buyers. There is also an empty home tax in Vancouver.<sup>3</sup>

### Background

Questions around accountability, transparency and effectiveness persist as the tax base widens. As the tax is not equally applied throughout the province, housing markets have been unevenly impacted. There is also no government standard for applying the tax based on rental vacancy rates.

There is also little direct evidence that the tax has created more affordable rental housing or has alleviated the housing crisis in any of the centres noted in the enabling legislation.

An adjustment to tax paid by foreign buyers would have as much impact as the speculation tax, without having to create regulations required with the introduction of a new tax. Province-wide, the tax brought in just over \$78 million in 2021. Of that, \$44.4 million or nearly 57 per cent, came from foreign owners and “satellite families.”<sup>4</sup>

Revenue is returned to communities subject to the tax in the form of affordable housing. In 2021-2022, the province invested \$1.1 billion in the taxed areas, according to the government.<sup>5</sup>

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<sup>1</sup> The Speculation and Vacancy Tax Act (the “Act”) received Royal Assent on November 27, 2018. The Act imposes a new Speculation and Vacancy Tax (the “Speculation Tax”) on owners of residential properties within specified areas of British Columbia (“B.C.”).

<sup>2</sup> <https://www.westerninvestor.com/british-columbia/bc-expands-speculation-and-vacancy-tax-starting-in-2023-6241781#:~:text=The%20B.C.%20government%20is%20expanding,Cowichan%2C%20Lions%20Bay%20and%20Squamish.>

<sup>3</sup> <https://vancouver.ca/home-property-development/empty-homes-tax.aspx>

<sup>4</sup> <https://vancouver.sun.com/news/local-news/speculation-and-vacancy-tax-generating-millions-is-being-expanded-b-c-government-says>

<sup>5</sup> Ibid

Over 1.6 million homeowners<sup>6</sup> throughout the province have to complete government forms prior to the end of Q1 of each year for consideration of possible exemption. It is increasingly clear that there isn't a strong business case for imposing the speculation tax as a means to help alleviate low rental vacancy rates as the province had claimed as the rationale for imposing the tax in a growing number of select cities. The system required to process over a million and a half forms creates a bureaucratic quagmire that likely consumes much of the revenue that tax brings in for the government though what the net impact is, is not readily available because those costs are not tracked and publicly reported.

The tax has created an unlevel playing field among municipalities,<sup>7</sup> where some have a provincially imposed tax while their neighbouring communities do not. It has also created hardships for thousands of long-term BC homeowners across a broad diversity of profiles. Pushback against the speculation tax has come from individuals, some local and regional governments, as well as developers and business groups.

As of this date, while the government has published the total revenue the tax has brought in, there does not appear to be a public report that details the specific amount of taxes raised within each affected jurisdiction and confirmation of return of those funds to the same jurisdiction through the form of a top-up of investment in affordable housing.

A year ago, many believed government regulations would establish a benchmark related to low rental vacancy rates where the tax would be implemented or removed. However, the government simply listed the communities that would be subject to the tax without providing clear guidelines as to what key performance indicators were being used to select where the tax would be applied or not applied.

If the intent of the tax policy is to make housing more affordable to average British Columbians, there are better ways to accomplish that goal. Several studies and articles published by the Fraser Institute including Canada's real housing problem is impeded supply, not high demand<sup>8</sup> offer an alternative approach focused on reducing fixed costs related to government regulations and taxes at every level. The Fraser Institute has concluded more housing supply, including faster development approvals by local government and higher density in cities, are needed to target the root cause of housing affordability. The speculation tax does not drive more building/construction to meet demand.

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<sup>6</sup> Article published online by News1130 <https://www.citynews1130.com/2019/09/12/b-c-raked-in-115-million-in-vacancy-tax-from-about-12000-homeowners/>

<sup>7</sup> <https://www.westkelownacity.ca/en/city-hall/resources/Documents/Speculation-Tax-Impacts-in-West-Kelowna-26-JUL-18-VERSION-5.pdf> July 26, 2018 *Speculation Tax Impacts on West Kelowna*

<sup>8</sup> Canada's real housing problem is impeded supply, not high demand

<https://www.fraserinstitute.org/blogs/canadas-real-housing-problem-is-impeded-supply-not-high-demand>

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Based on statistics from the Association of Interior Realtors, formerly the Okanagan Mainland Real Estate Board where foreign buyers make up only 1.8% of the purchases,<sup>9</sup> with the majority being from the region followed closely by those from the lower mainland, there is a stronger argument that those relocating from the lower mainland are having a far greater impact on rising house prices than anyone from Alberta or elsewhere in Canada.

Ultimately, the arbitrary implementation of this tax in only some areas of the province is unfair, and problematic. If the government is truly trying to go after speculators who are negatively influencing the housing market, we suggest a simple adjustment of the foreign buyers tax when the property is sold within a specific time period – as that approach would be more direct and transparent than the current regime.

## THE CHAMBER RECOMMENDS

That the Provincial Government:

1. Remove the listing of specific cities as targets of the tax and instead establish clear criteria within the regulations that would indicate what the threshold is (i.e. a rental vacancy rate of less than 2%) when the tax would be activated and conversely when it would be removed if the threshold is not reached (i.e. when rental vacancy rates are 2% or above).
2. Establish transparent public reporting on revenue generated from the spec tax within each jurisdiction it is being applied and reconcile in a public report the revenue being re-invested in the applicable community to ensure the goal of investing all funds raised in a jurisdiction within the same jurisdiction to an amount that is incrementally above the amount of public investment that would normally be made by BC Housing.
3. Initiate a third-party review of the tax to determine if it has achieved the desired outcome of creating more affordable rental housing in the communities where it is being applied.
4. Amend the Community Charter to provide local governments with the authority to impose a vacant home tax if it so desired with all revenue required to go into a community trust to be used for investments in non-market housing.

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<sup>9</sup> Article – “Foreign transactions made up 1.8 per cent of purchases in the central Okanagan” - <https://www.ctvnews.ca/business/expansion-of-b-c-foreign-buyers-tax-to-okanagan-vancouver-island-is-questioned-1.3815515>

5. Engage in discussions with the UBCM, the BC Chamber of Commerce and the development community prior to making any further changes to the provincial spec tax or authority of local government to impose such a tax.

**Submitted by the Kelowna Chamber of Commerce**  
**Supported by TBC**