

PROPERTY TRANSFER TAX REFORM – ADDRESSING BC’S HOUSING AFFORDABILITY CHALLENGE

The Chamber has been on record for some time advocating that affordable, market based housing for families is a major factor in creating attractive, liveable and competitive communities. Affordable housing is important to the business community both as an economic driver in its own right, and also as a competitive advantage in the search for a skilled workforce and community growth.

Business must remain competitive and the cost of housing is a major source of wage pressure. Any additional wage costs are passed to consumers and increased consumer costs will only encourage buyers to search alternatives (cross border shopping, etc.).

The Chamber recognises that the purchase price of a house is a market function that will find a natural balance if left unimpeded. However government at every level have been distorting this market by consistently imposing unnecessary costs and restrictions on the market. This has led to increased pressure on costs and therefore prices. This is exacerbating the housing affordability crisis that is impacting communities across BC.

A critical contributor to this issue is the Property Transfer Tax (PTT), which affects the affordability of housing throughout the province of B.C. BC continues to hold the highest prices across Canada and has seen increases of 16% since 2012, while the national average increased 13%. The PTT is often repeated and continually imbedded in the ultimate cost passed on to consumers. The Chamber believes that the majority of this tax burden, which was originally intended to impact only the elite now affects virtually everyone who purchases a home. As such, the original “luxury tax” is now burdening the working class.

BC residents are enduring the highest cost of housing in Canada, with prices almost 100% higher than the national average. This high cost of housing places a burden on economic stability and creates a barrier to attracting and retaining skilled workers to certain sectors and regions.

The Chamber believes that reduction and eventual elimination of the property transfer tax creates a positive impact on the business community and the Province via:

- Improving the affordability of housing for residents
- Creating attractive, liveable, and competitive cities
- Retaining residents in BC to fill skilled jobs
- Attracting skilled workers to BC to fill specific vacancies
- Generating additional economic contributions in communities, as each property transaction generates on average \$42,000 in expenditures in local communities
- Drive job creation, as the sale and purchase of homes has a positive impact on direct and indirect jobs.

Canadian Provinces Average House Prices, February 2015¹

Province	Average House Price
British Columbia	\$ 617,581
Ontario	\$ 448,189
Alberta	\$ 382,247
Saskatchewan	\$ 300,738
Newfoundland/Labrador	\$ 282,638
Quebec	\$ 272,001
Manitoba	\$ 266,513
Nova Scotia	\$ 215,946
New Brunswick	\$ 172,833
Prince Edward Island	\$ 164,774
Canadian Average	\$ 312,346

Data provided by The Canadian Real Estate Association:

Current Property Tax Model:

Currently, the Tax is charged at 1% of the value of property up to \$200,000 and 2% on the remainder of the value. This results in \$10,352 of tax on the average house price of \$617,581.

First time home buyers (FTHB) who are BC Residents can be eligible¹ for an exemption or refund of the tax if the value is less than \$475,000. This limit was recently increased by the Provincial Government and shows positive signs of commitment to property tax reform and the introduction of mechanisms to attract home buyers to BC.

Proposed Revisions to Property Transfer Tax:

The Property Transfer Tax is a significant source of income for the province of British Columbia. The 2014-2015 Provincial Budget shows that the tax should generate close to a billion dollars per year for the B.C. government for the next 5 years. As such, we realize that any adjustments to eliminate the Property Transfer Tax need to be managed in a fiscally responsible way to avoid offsetting increases in income taxes or cuts to essential services. Similarly, the low personal tax rates and strong public services are equally attractive factors for BC. Therefore, any proposals to reduce taxes must have compensating measures to maintain a balanced budget.

We recommend that the BC Government initially increase the threshold to a level consistent with the original intention of taxing luxury items i.e. to a value consistent with actual prices in BC, being \$600,000 for BC Residents who are purchasing a primary residence. The threshold of \$600,000 and \$475,000 for first time home buyers exemptions, should continually be increased in line with the changes in home prices to reflect the current economics.

Over the longer term, we recommend further reducing the rates of tax with the intention of eventual elimination.

The Primary Residence Grant

In addition to amending the thresholds the Chamber also believes that further reform would address the issue of affordability. Indeed, property transfer tax reform would be considerably advanced through an initiative that would offer qualified purchasers a Primary Residence Grant.

¹ <http://www.crea.ca/statistics>

Currently Property Transfer Tax is calculated at 1% on the \$100,000 of property value and 2% on the remainder. Increasing that threshold would go a long way to make the purchase of a Primary Residence more affordable.

Primary Residence Grant qualifications would be similar to those for First Time Home Buyers, requiring applicants to be Canadian citizens or permanent residents and would be available to purchasers moving to British Columbia from other areas of Canada increasing the appeal of relocating to British Columbia.

The existing PTT formula, 1% on the first \$200,000 and 2% on the remaining purchase price of properties not intended to be the primary residence, would remain as is.

The current Property Transfer Tax Return would only require an additional declaration, similar to the First Time Homebuyers declaration, to determine the intended use of the property and the qualification of the purchaser.

No Tax Barrier Investment Haven

Politically stable, safe, secure and beautiful, British Columbia, especially Vancouver, with its no-foreign-tax-barriers-to-buy-or-sell, is an attractive location and investment haven for wealthy offshore investors.

BC does not track real estate buyers by foreign residency status and determining the exact amount of foreign ownership is difficult at this time. However, a reasonable measurement of that trend is found in a report done by the Landcor Data Group and published in 2011.

The Landcor Data Group found that in 2008 and 2010, between 46 and 74 percent of buyers of condos over \$2 million and homes over \$3 million were sold to persons identified by Landcor as Peoples' Republic of China investors. While the Chinese buyer group is significantly present, other foreign buyers from 90 different countries are also entering the Vancouver market according Landcor.²

Foreign ownership in large, international cities is happening around the world.

At the end of 2013, Britain introduced a 'stamp of duty' of up to 15 percent on purchases of more than 2 million pounds by foreign buyers made through corporations. And next year, Britain will introduce new capital gains tax on property owned by foreign property investors.³

Other cities such as Paris and New York already impose similar capital gains taxes that relate to an owner's residency status.

Since 2012, Hong Kong has required foreign investors and companies to pay a special 15 per cent tax also referred to as a 'stamp duty'. In fact, most countries tax foreign ownership in some way.⁴ In Canada, the province of Prince Edward Island has special purchase rules and restrictions in place to prevent Americans from buying up beach front property.

² http://www.landcor.com/market/reports/Q1_2011_Residential_Sales_Summary_Final.pdf

³ <http://www.telegraph.co.uk/finance/newsbysector/constructionandproperty/10417422/Tax-on-foreign-property-owners-to-burst-Londons-bubble.html>

⁴ <http://blogs.vancouversun.com/2013/12/16/hong-kong-puts-15-per-cent-tax-on-foreign-buyers-will-b-c-follow-suit/>

In Canada, many provinces have restrictions on foreign ownership. Alberta limits non-residents to owning no more than 2 plots of land, not exceeding a total of 20 acres. In Saskatchewan, non-residents may not own land over 10 acres. Prince Edward Island charges non-resident owners higher property taxes and non-resident buyers must apply to purchase land over 5 acres or land with shore frontage over 165 feet.

British Columbia, especially the city of Vancouver, has evolved into a world-class destination that now demands a world-class taxation formula. Increasing the Property Transfer Tax rate for foreign purchasers should be designed to replace any revenue lost due to the reduction for primary residence.

Impact of Primary Residence Grant and Potential Increase for Non-Residents

\$1,000,000 House	First Threshold	Excess Threshold	Estimated PTT	Change
Property Transfer Tax	\$600,000 x 1 %	\$400,000 x 2 %	\$14,000	
Primary Residence Grant	\$1,000,000 x 1 %	\$0 x 2%	\$10,000	(\$4,000)
Non Residents	\$600,000 x 2%	\$400,000 x 2%	\$ 20,000	\$6,000

In order to offset the lost revenues, we recommend that high levels of property transfer tax remain for investment properties (i.e. non-primary residences) and foreign investors (non-BC residents). The rates will have to work on contrasting scales, depending on the relative number of buyers and average prices, to manage overall revenue declines to minimize negative impacts on the overall provincial budget. In Canada, many Provinces have restrictions on foreign ownership, therefore such a policy would not create a significant competitive disadvantage. In contrast to the old tax structure, which puts a heavy burden on homebuyers who invest in their communities and in effect slows down the growth of the economy, the new structure would help attract families to purchase homes in BC, create new jobs, fill job vacancies and generally expand the economic pie of the whole province.

THE CHAMBER RECOMMENDS:

That the Provincial Government:

1. increase the 1% PTT threshold from \$200,000 to \$600,000 (being current average market value), with 2% applying to the remainder of the fair market value;
2. continually index the 1% PTT threshold and the First Time Home Buyers Exemptions using Statistics Canada's New Housing Price, and make adjustments annually to account for inflation;
3. continue to increase the threshold for the First Time Home Buyers exemption;

4. introduce mechanisms to eliminate double taxation when properties are transferred between common owners;
5. amend the current Property Transfer Tax Act to provide for a new Primary Residence Grant; and
6. introduce a new Property Transfer Tax rate of a minimum of 2% of the property purchase price for all residential property in British Columbia bought by non-residents of Canada or corporations controlled by non-residents.