

# A progressive housing cost proposal

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## Applying a surtax that increases with the price of a home would help in several ways

Vancouver's housing cost crisis has generated diverse proposals for policies to curb price increases, speculative purchases, foreign ownership, vacant properties, and large homes crowding out moderate-priced housing. With the goal of making housing more affordable for both renters and new buyers, clearly no single policy will resolve all of these problems.



*DOUGLAS TODD/VANCOUVER SUN FILES* Expensive houses, such as those in the Shaughnessy-Arbutus neighbourhood, would be hit with a higher rate of property surtax than homes of lesser value in Vancouver under Rhys Kesselman's proposal.

One approach that has been overlooked is the potential for applying residential property taxes at progressive rates — with higher rates applied to higher-valued homes. Homes valued below a specified threshold — for example, \$1 million — would be unaffected by such a property surtax.

The surtax could be applied at 0.5 per cent on value between \$1 million and \$1.5 million; one per cent between \$1.5 million and \$2 million; 1.5 per cent between \$2 million and \$3 million; and

two per cent on all value in excess of \$3 million. Thus, a \$1.5-million home would bear surtax of \$2,500 ( $0.005 \times \$500,000$ ), and a \$2-million home would bear \$7,500 surtax. Higher surtaxes would apply to still higher-valued properties.

The thresholds and rate brackets could vary across the province to reflect the widely varying house price patterns. Each municipality would set its rate brackets under authority of new provincial legislation, and the surtax revenues would flow into municipal coffers for affordable housing initiatives.

Two important features would accompany this proposal. First, to target the tax on speculative purchases, non-resident purchasers, and vacant properties, each homeowner would be able to credit against surtax their B.C. income tax paid in the previous year. Except for higher-valued properties, this feature would insulate from surtax most resident homeowners who are occupying their home.

Non-resident foreign owners, satellite families, tax evaders, and criminals using their proceeds to buy homes would be most impacted by the surtax, since they would have paid little or no B.C. income tax to offset against their surtax. Both foreign and domestic speculators in higher-valued residential properties would also bear surtax since they would not have sufficient income tax to credit against all their holdings.

The other important feature of the proposal is that all homeowners would have the option of deferring payment of their property surtax until the home was sold (similar to the tax deferral on property tax now offered seniors). This provision would cushion owners of higher-valued properties who are “homerich but cash-poor.”

Even at rates approaching two per cent on the highest-valued properties, the surtax would absorb only a fraction of the long-run appreciation on residential properties in the Vancouver area. Although highly variable year to year, these rates have typically run between five and 10 per cent. Thus, the accruing debt of those choosing to defer their surtax should never outrun the appreciation on their properties.

How can such a new tax be justified in terms of fairness within the overall tax system? Home ownership is perhaps the most favourably treated form of wealth. The rental values of the services of an owner-occupied home are tax-free; if the owner were to hold equivalent wealth in financial investments, the returns would be taxed.

Moreover, the capital gains realized upon the sale of owneroccupied homes are fully taxfree in Canada. Many countries tax such gains; the United States taxes the gains on sales of owner-occupied homes above \$250,000 US per owner. And unlike almost all countries, Canada does not impose any death levies such as estate or inheritance taxes, so the large accrued gains on homes flow tax-free to beneficiaries.

While not a cure-all for the problems afflicting Vancouver’s over-priced housing, this scheme would help in several ways. It would reduce the returns to speculation on rising home prices by

both foreign and domestic agents. It would raise the cost of holding vacant houses and unrented condos, thereby increasing the rental supply.

The scheme would also discourage the purchase of highly priced properties and thereby release land and resources for construction of more moderately priced housing. Reducing the high appreciation rates on detached homes would exert ripple effects on expectations about future price increases, dampening the perceived urgency to buy.

How does this proposal compare with other ideas for curbing high and increasing home and rental values? To illustrate, B.C. Finance Minister Mike de Jong has mooted an increase in the property transfer tax for high-valued homes. But a surtax applied annually would be more effective than a surtax applied just one time at purchase.

My proposal does not explicitly distinguish between domestic and foreign purchasers; only the income tax offset to the surtax offers some leverage against foreign buyers. However, a property surtax could be supplemented by a surcharge in the property transfer tax on foreign purchases. This could be patterned after initiatives such as Australia's three per cent or Singapore's 15 per cent surcharge on foreign purchases.



A property surtax needs to be considered alongside other policy candidates such as taxes on speculative holdings or capital gains, restrictions on foreign ownership, and zoning and landuse reforms. Yet a property surtax would be easy to implement, cause minimal distortion in housing markets, restore equitable taxation to housing, and yield revenues that could be used to tackle other parts of Vancouver's housing problem.