IPTI Xtracts

Property Tax and Assessment News from Around the World

CANADA – October 2021

CONTENTS

How Could Canadian Property Taxes Change Under Trudeau?

The prime minister's victory last month paves the way for a non-resident homeowners tax to take effect

Q. What's the status of property tax changes after Prime Minister Justin Trudeau's victory?

A. Prime Minister Justin Trudeau retained his position as the leader of Canada in a snap election last month, and his initiative to tax non-resident foreign homeowners in the country is set to go ahead.

The Government of Canada proposed the new tax in its 2021 budget, released in April 2021. The new levy will add an annual tax of 1% on the value of homes held by non-resident, non-Canadian owners. It's set to begin on Jan. 1, 2022, although taxes won't be due until the following year.

The proposal will require homeowners who are not Canadian citizens or permanent residents of Canada to declare their residential property with the Canada Revenue Agency, according to the budget. There are some exemptions, including for owners who rent out the residence for six months or more during the year, or specified Canadian companies or trusts.

Those who are not exempt from the tax would then be required to pay 1% of the assessed value of their property to the agency. Assessed value is either the sales price or the valuation of the home by its local municipality for tax reasons, the proposal said.

Although it’s the first national tax of its kind, the province of British Columbia implemented such a levy in 2018. Its so-called speculation and vacancy tax ranges from 0.5% to 2% on homes that are empty more than six months of the year in the province’s “taxable regions,” according to the province.

The city of Vancouver levies a separate Empty Homes Tax. There, properties deemed empty are annually “subject to a tax of 1.25% of the property’s 2020 assessed taxable value,” according to the city.

Toronto is also considering implementing a separate 1% tax on vacant homes in the city for next year. The city is still consulting stakeholders on the proposal, and has provided an online survey for interested parties to weigh in. The survey is set to close on Monday, Oct. 25, according to the City of Toronto’s website.

BRITISH COLUMBIA

Vancouver mayor makes pitch to allow up to 6 affordable homes on a single-family lot

A new proposal by Vancouver mayor Kennedy Stewart aims to create up to 10,000 new, more affordable homes for middle-class households in single-detached neighbourhoods across the city.

It would permit up to six ground-oriented units on a single-family lot. Property owners would be given the option to convert or redevelop their large, single-detached houses into multiple stratified homes. This initiative, named “Making Home,” would start with 2,000 lots.

It carries the same name as Stewart’s previously proposed Making Home strategy, rejected by city council in September 2020. The previously axed strategy called for a pilot project on 100 lots and up to four sellable units on each lot. At the time, a majority of the city council rejected Making Home 1.0 for reasons that include no public consultation, and a lack of any guarantee that these homes, while adding to supply, would be affordable for middle-class households.

Making Home 2.0, however, addresses some of those concerns with key differences. Under the rebooted and revised proposal, affordability could be guaranteed through mechanisms such as a covenant on title through the Land Title Act, and placing a second mortgage on title facilitated by BC Housing through their Housing HUB program of catalyzing housing for middle-class families.

Additionally, speculation could be limited; when owners sell the property, their profit would be capped, with a portion of the land lift going towards public benefits. Using land value capture could generate hundreds of millions of dollars towards the municipal government’s programs of building affordable rental homes, infrastructure, and new childcare, and covering the municipality’s cost of the $500-million Climate Emergency Action Plan.

In addition to providing more affordable home options for households making between $80,000 and $120,000 annually, it is suggested Making Home 2.0 could allow families to downsize.

“Making Home is a housing, economic, and climate change plan that works for all of us,” said Stewart in a statement. “It allows thousands of young, middle-class or new Canadian families to buy their first home while investing in rental homes for working people and those without a home at all.”

With the average price of a detached home in East Vancouver hovering at $1.4 million, a detached home is only within reach of the top 2.5% of incomes. But under the changes, ownership in single-family neighbourhoods would be within reach of 50% of residents.

Making Home 2.0 offers the possibility of gentle densification in single-family neighbourhoods, in a city with 68,000 single-family lots, with 57% of Vancouver's land zoned for single-detached homes.

Existing policies permit up to three units on a single-family lot — a main residence, one basement suite, and a laneway house.

This proposal is being pushed ahead of the October 2022 civic election.

NOVA SCOTIA

Nova Scotia eyeing taxes for homebuyers coming from outside the province

Buying a home in Nova Scotia may soon be more expensive for people from outside the province.

Premier Tim Houston has instructed Finance Minister Allan MacMaster to implement a deed transfer tax on any property purchased by individuals who do not pay taxes in Nova Scotia.

In a September mandate letter, the finance minister was also asked to impose a levy of $2 per $100 of assessed property value on every non-Nova Scotian taxpayer with property in the province.

The letter did not provide a timeline for implementation, though finance, and treasury board spokesperson Gary Andrea said in an email that "the department is working on it."

However, realtors believe the taxes targeting investors in hopes of slowing down the market and helping maintain housing affordability for locals will have a minimal impact and do little to address the market's main problem: lack of supply.

"To the wealthy people that buy these homes as an investment, (the tax is) going to become part of the cost of doing business, but I don't think it's going to deter people," said Jacqui Rostek, a Nova Scotia broker with the Platinum Group Halifax.

"It will work, but mostly for smaller time investors that are still very much working their jobs and trying to save enough money for a down payment on another property."

The size of down payments on Nova Scotia homes have soared over the last few years as the ability to work remotely during the COVID-19 pandemic made it more feasible for Canadian and international buyers to seek homes in Atlantic Canada, where prices are affordable than in large urban centres.

The rise in demand led to a corresponding spike in prices. The average Dartmouth-Halifax home price was up $471,746 last month, up almost 23 per cent from $384,001 last September, the Canadian Real Estate Association reported.

Even with that price climb, Rostek said buyers from Ontario and Western Canada have been drawn to the market because they would have to pay much more for a home elsewhere.

For example, the average home price surged to more than $1.1 million in September in both the Greater Toronto and Greater Vancouver areas.

Additional taxes won't deter out-of-province investors because they still save by buying in Nova Scotia, said Rostek.

"It's still, especially in their eyes, very good overall," she said.

However, the market has simultaneously seen little increase in supply, pushing Canada Mortgage and Housing Corporation to rate Halifax as having a high degree of vulnerability to market conditions throughout health crisis.

In July, CMHC found the average days a Halifax-Dartmouth home spent on the market was 13, down significantly from 45 in January.

The inventory of available houses - the average time spent on the market - in Nova Scotia was 2.2 months at the end of July, a slide from 2.9 months in June 2021 and below the long-term average of 7.3 months.

The proposed taxes, Rostek said, wouldn't increase housing supply by much, if at all, and wouldn't deliver relief for home buyers.

"At the end of the day, we're still going to have an issue here until there's more supply," she said.

Matthew Honsberger, a Nova Scotia realtor with Royal LePage, agreed and added that he finds the proposed policy "disappointing."

"I don't know that it's enough to deter people, but it does feel punitive, and it does feel like it's singling out people who are interested in coming to the region," he said.

Honsberger grew up in Ontario, but moved to Nova Scotia in 2004.

He was attracted to the lifestyle and landscapes the province offered, but admits he took affordability into account too.

If he had been charged the proposed taxes because he was from outside the province, he said, "that probably would have rubbed me the wrong way."

"And I'd hate to think that that's the first impression that we're giving to people who have just discovered what it is that we have to offer," he said.

"It seems to suggest that they're less wanted than people who are already living there."

Honsberger also worries about the potential affect on a heated rental market.

Rentals.ca data shows the average monthly rent in September for a one-bedroom home in Halifax reached $1,574 and for a two-bedroom, sat at $2,041.

Year over year, average rents in Halifax have increased 12.5 per cent for a one-bedroom and 17.2 per cent for a two-bedroom. Month over month, average rents in Halifax are up 3.8 per cent for a one-bedroom and 9.7 per cent for a two-bedroom.

The proposed policy also irks him because he thinks it could result in investors passing along costs to tenants, who are already paying high rents.

“That in my mind hurts affordability,” he said. “It doesn’t help affordability.”

ONTARIO

City of Toronto seeks input on vacant home tax intended to increase housing supply

Torontonians are being asked for their input on a new tax aimed at boosting housing supply amid the city's ongoing affordability crisis.

But some observers say they question just how much of an effect the tax, which kicks in next year, will have on Toronto's housing supply.

The vacant home tax is meant to encourage property owners to sell or rent out their unoccupied residential properties to increase Toronto's housing supply - or pay a tax to keep them vacant.

The city has asked residents to fill out a survey, which includes questions on how much they support the tax, whether they agree with proposed exemptions and how often the tax should be evaluated. Submissions are being accepted until Monday.

Deputy Mayor Ana Bailao, who is also the city's housing advocate, said the public consultation will allow the city to finalize some details of the tax, such as who can qualify for an exemption.

“The intent of the tax is really to motivate people who have the homes that are today sitting empty, and that are not fulfilling the role that I believe they should be fulfilling, which is actually being somebody's home ... to rent (them) or to sell (them),” she said.

Beginning in 2022, all property owners will be required to declare the status of their residential homes each year.

A unit is considered vacant if it's been unoccupied for more than six months during the previous calendar year and is not the principal residence of the owner.

People who declare their homes vacant will be required to pay a tax, which will be one per cent of their home's current assessed value. Those who don't could face a fine.

Since the tax is based on a residence's status from the year prior, owners of homes declared vacant in 2022 will have to pay the tax in 2023.

Some exemptions may apply, including for snowbirds, if the registered property owner dies or if the property is undergoing renovations.

The city estimates the tax will generate $55 million to $66 million in revenue annually, based on a one per cent vacancy rate and a one per cent tax.

Jason Mercer, chief market analyst for the Toronto Regional Real Estate Board, said “the jury's still out” on the tax.

“It will be important to track to see if we see more supply that can be attributed to the tax,” he said.

“Hopefully, over time, it becomes a tax that essentially collects no revenue, because it will have been successful in prompting investors to bring their units online.”

Murtaza Haider, a real estate management professor at Toronto's Ryerson University, said the city's motivation to implement the tax is “right and justified.”

But, he questioned how much of an impact the tax will actually have.

“My estimate is that it will have some impact, but not much, primarily because not many homes are left vacant in a city that is seeing such high increases in rents and prices,” said Haider.

“Why would somebody keep an asset like that vacant, and if somebody has kept a property vacant then they must have a good reason for it, for which they would apply an exemption status.”

Haider said more homes need to be built to ultimately address the lack of housing supply and “rapid price escalation” seen in the market.

“What is needed is far more than what such a tax would deliver,” he said. “What is needed is tens of thousands of more homes above and beyond what would have been constructed anyways.”

Bailao said the city needs both - more newer builds and a vacant home tax to ensure “that all the units that we're building are being somebody's home.”

She added that Toronto will review the impact of the tax and make adjustments if it is not having the effect the city wants to see.

Vancouver introduced an empty homes tax in 2017, making it the first major city in Canada to implement such a measure that was intended to crack down on foreign investment and property speculation. The city says the tax has cut down 25 per cent of vacant properties since its launch.

Ottawa is also introducing a vacant home tax in 2022, while other jurisdictions like Mississauga, Ont., are considering implementing similar taxes.

Ontario to mail out new property assessments after next provincial election

Home prices have risen dramatically – upward of 50 per cent or more in some parts of Ontario – since the last provincewide valuation in 2016.

The Ontario government is planning to further delay the release of provincewide property assessments – on which property taxes are based – until after the June provincial election, municipal sources involved in government consultations tell The Globe and Mail.

Some municipal leaders are concerned that voters could get the new assessments in the middle of next fall's municipal elections. Home prices have risen dramatically – upward of 50 per cent or more in some parts of the province – since the last provincewide valuation in 2016. Assessments are typically done every four years and mailed to homeowners starting in April, but were delayed in 2020 because of the pandemic.

The province's plans are expected to be included in next month's fall economic update in the form of a direction to the Municipal Property Assessment Corp., or MPAC, the arm's-length agency that administers property assessments.

A rise in the value of a home does not necessarily mean a particular homeowner will pay more in property tax, as tax bills also depend on how much values increased or decreased in other neighbourhoods in a municipality. The assessed value used to calculate property taxes is then phased in, usually over four years.

The Ontario government's March budget indicated it would hold consultations on the property assessment process and then communicate its new direction this fall.

Ontario's provincial election is in June, but it's already campaign season

Two senior officials with two municipalities in the Greater Toronto Area say they have learned through consultations that the province is proposing to mail out 2022 property assessments to residents after the June 2 provincial election but before municipalities are on the ballot on Oct. 24. The sources said there are concerns in their mayors' offices that the timing could cause sticker shock in the middle of municipal campaigns, in which soaring house prices could be a major issue. The Globe is not identifying the officials because they were not authorized to speak on the record.

As well, Kitchener Mayor Berry Vrbanovic, who said he had heard the assessments were coming in 2022, but did not know their precise timing, urged the provincial government to delay the assessments into 2023 to avoid an election year altogether.

"Listen, there's no question that that would probably add a level of anxiety for people, at a time when so much has been changing in all our lives for the last 18 months," Mr. Vrbanovic said in an interview.

The average sale price of a detached home in Kitchener-Waterloo was $963,646 in September, an increase of 25 per cent over the year before, according to the Kitchener-Waterloo Association of Realtors.

Mr. Vrbanovic said the big increases in property values over the past year meant staff at municipalities needed more time to analyze the numbers, once they arrived, to calculate tax rates and plan cities' budgets.

"Trying to rush that, either before, between elections or whatever, probably does not make the most sense," he said.

Emily Hogeveen, a spokeswoman for Ontario Finance Minister Peter Bethlenfalvy, said no formal decision has been made about any direction to MPAC. She said the government has been reviewing property assessment and taxation and seeking input from municipalities, taxpayers, industry and others on "the timing and valuation date for the next reassessment." As outlined in the 2021 budget, she said the plan would be unveiled this fall.

A spokesperson for MPAC said the agency maintains an inventory of all properties and accounts for changes in their values.

"We remain in a strong position to deliver the next provincewide assessment update, whenever that may be," MPAC spokesperson Paula Chung said in an e-mail.

The Association of Municipalities of Ontario would not comment on the timing of the next round of assessments, but said it will work with the provincial government and MPAC when the time comes.

"We are confident that the Ontario government understands that municipal governments have a practical interest in making sure that MPAC's property assessment update rolls out smoothly," said AMO executive director Brian Rosborough in a statement.

Tax break coming in 2022 for small business property owners

Committee approves new tax subclass, looks to owners of larger properties to cover revenue loss

Owners of Ottawa properties that house small businesses can soon expect a 15 per cent tax break that could save them thousands of dollars.

The City of Ottawa's finance and economic development committee approved a new tax category on Tuesday afternoon that would launch in 2022.

This means the owner of any commercial and industrial property measuring 25,000 square feet or smaller will be automatically eligible for the discount. Property owners do not need to apply.

The tax discount will be implemented over two years, starting with a 7.5 per cent discount applied to the final 2022 tax bill for everyone who qualifies. The remaining 7.5 per cent cut will be applied in 2023.

City staff settled on property size to determine what constitutes a small business, instead of factors such as revenue or number of employees, because the information is already readily available.

The discount will also apply to the eligible portion of a mixed-use property. Take, for example, a main street building that houses a retail store on the ground level, with residential units above. The new tax break will apply to the part of the property that is classified as commercial.

The new "small business tax subclass" must still be approved by full city council, which is expected to happen at next week's meeting on Oct. 13.

This slide from City of Ottawa's finance and economic development committee shows some of the recommendations from city staff, which was voted on by councillors. (City of Ottawa presentation)

Tax break could remove nearly $10M in revenue

More than half of the 11,000 commercial and industrial properties in Ottawa will qualify for the new tax class, staff say, and that could lead to an estimated $9.9 million in revenue loss for the city.

That revenue loss will be made up in two ways, according to staff.

First, the city will cancel the discount for vacant properties, which would bring in $1.4 million. Until now, owners of vacant commercial property received a 30 per cent tax discount, while owners of empty industrial property received a 35 per cent break.

The remaining lost tax revenue will be borne by owners of larger properties who do not qualify for the new tax bracket. The city estimates these owners will see their taxes increase by an average of 1.46 per cent due solely to this tax change.

That does not include annual property tax increases that occur with each annual budget.

In the last provincial budget tabled in the spring, the Ontario government allowed municipalities to create a new tax subclass for small business property owners so they could be charged a lower rate than their larger counterparts. The move to help small businesses was spurred by the pandemic, but the new tax class will be permanent.

Although some small business owners also own the properties where they rent, many others are tenants. The property tax savings don't necessarily flow through to the person running the actual business.

PRINCE EDWARD ISLAND

Tourism Property Tax Interest Relief Program

Tourism operators owing interest on 2021 property tax payments may apply for Tourism Property Tax Relief, provided the applicant's property is part of their tourism operation. The existing Tourist Interest Relief Program is now expanded to include outstanding unsubsidized interest on property taxes for the period June 1- December 31, 2021. Operators with a monthly revenue reduction of 30% or greater who have applied to the Canada Emergency Rent Subsidy (CERS) may be eligible, with overall eligibility assessment calculated after the end of year. If you did not apply for CERS, you are not eligible for this program.

Interest will continue to accrue on the applicant's account until December 31, 2021. Tourism PEI will process approved payments to the eligible property tax accounts after December 31, 2021.

Unsubsidized interest is equal to the total interest on eligible properties during the June 1, 2021 to December 31, 2021 period, reduced by the percentage subsidized by CERS.

Once an application has received approval for relief under this program, claims will then be required to be submitted monthly, and processed each month up to December 31, 2021. The program will not exceed seven months, and no claims will be processed for months subsequent to December 2021.