

# Residential Property Flipping Rule

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Bill C-32 introduced the Residential Property Flipping Rule, which will be applied to residential properties sold on or after January 1, 2023. Under this new rule, the gains from reselling a residential property within 12 months of purchase will be fully taxable as ordinary income, as opposed to being exempted under the Principal Residence Exemption (for primary residences) or taxed as capital gains (for secondary residences) without this rule. The rule will not apply if the disposition results in a loss or if it is already considered as ordinary income. Exemptions to this rule will include circumstances such as deaths, household additions, separations (marriage or common-law), threats to personal safety, serious illness or disability, relocation due to employment, involuntary job termination, insolvency, or destruction/expropriation of the property.

## 5-Year Cost

\$ millions	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Total cost	-2	-8	-12	-22	-23	-66

## Detailed 5-Year Cost

	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Static cost	-4	-16	-24	-44	-45	-132
Behavioural response	2	8	12	22	22	66
Total cost including behavioural response	-2	-8	-12	-22	-23	-66

## Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add up due to rounding.

## Estimation and Projection Method

The tax base was constructed using T1 data for the tax filers claiming the principal residence exemption on properties that were purchased and sold within one year and then applying the exemption criteria. Exemption categories that were unavailable from T1 data were inferred based on their prevalence in the general population. Average proceeds of disposition and effective tax rates for these tax filers were also derived from T1 data. A behavioural response was assumed where 50% of the affected tax filers would delay their disposition to avoid being taxed under the new rule.

Proceeds of disposition and price growth of flipped properties were projected based on the PBO Economic Model. The price growth for flipped properties were scaled from general housing price growth using factors observed from the Montreal quick-resale market (Canada Housing and Mortgage Corporation, 2021). Capital gain was derived using the projected proceeds of disposition and estimated selling/buying costs. Projected tax revenue was calculated by applying the average effective tax rate to the total capital gains across all affected tax filers. Finally, the tax revenue was adjusted upwards to account for secondary residence resales, based on CMHC's resale volume data.

## Sources of Uncertainty

The main sources of uncertainty involve the number of tax filers and their capital gains. T1 data does not contain information on some of the exemption categories, thus they may be overestimated or underestimated. Furthermore, there is significant uncertainty around the capital gains or rate of returns obtained by house flippers, due to the unavailability of nation-wide data. Finally, there is considerable uncertainty surrounding the magnitude of the behavioural response due to the lack of historical data.

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## Data Sources

Variable	Source
<a href="#">Canadian housing resale volumes</a>	Canada Housing and Mortgage Corporation
<a href="#">Price growth for quick resales (within one year) in Montreal</a>	Canada Housing and Mortgage Corporation
Number of tax filers reselling principal residence, average proceeds of disposition, and effective tax rates	Canada Revenue Agency, Information Request IR0656
Housing price projections	PBO Economic Model

## General population statistics for estimating exemption criteria

<a href="#">Approved applications for the Disability Tax Credit (DTC)</a>	Canada Revenue Agency
<a href="#">Total number of tax filers</a>	Canada Revenue Agency
<a href="#">Moving expense claims</a>	Canada Revenue Agency
<a href="#">Deaths</a>	Statistics Canada
<a href="#">Divorces</a>	Statistics Canada
<a href="#">Population by marital status</a>	Statistics Canada (Table 17-10-0060-01)
<a href="#">Separations (marriage/common-law breakdown)</a>	Statistics Canada
<a href="#">Re-partnering after separations</a>	Statistics Canada
<a href="#">Employment Insurance beneficiaries</a>	Statistics Canada (Table 14-10-0011-01)