

Cost Estimate of Election Campaign Proposal

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Short title: Non-resident owned speculation and vacancy property tax

Description: A new annual tax of 1% of the property value of residential real-estate owned by non-resident foreign entities (individuals, corporations, partnerships and trusts). Exemptions are made for properties that are principal residences or that are occupied by a renter or by a non-arm's length person (i.e. family member) for at least six months of the year.

Operating line(s): Other Excise Taxes/Duties

Data sources:	<u>Variable</u>	<u>Source</u>
	Residential property assessment values	Statistics Canada
	Residential property values	Statistics Canada
	Value of the Canadian housing stock	PBO Economic Model
	Foreign ownership in Canada	Canada Mortgage and Housing Corporation (CMHC)/Statistics Canada
	Exemptions and share of value of non-exempt properties	Speculation and Vacancy Tax (SVT) Technical Briefing, Ministry of Finance, BC

Estimation and projection method: The tax base used in the estimate was constructed using data on residential property values from Statistics Canada and data from CMHC and Statistics Canada on foreign ownership of residential properties in Canada. The tax base was then forecasted by using the projected growth of the PBO's economic model of the value of housing stock. The 1% tax is expected to generate a behavioural response from foreign owners. To account for such behaviour the share of the value (rather than just the number of properties) of foreign-owned properties subject to a similar tax in British Columbia (BC) was used to reduce the size of the previously estimated tax base. The 1% tax rate was applied to the adjusted tax base for each year.

Uncertainty assessment: The estimate has high uncertainty. The share of foreign owners in Canada is taken from CMHC's data on condominium ownership. It may therefore be an imperfect proxy for the true value of foreign ownership. Due to limited information on corporate ownership, especially with respect to foreign ownership, the estimate relies mostly on individual ownership. The level of compliance will depend on the design of the policy and the estimate considers the response observed in BC. In addition, the composition of foreign property ownership in BC may be different than in the rest of Canada. This may bias

upwards or downwards the estimated tax revenues. Finally, the administrative cost of the policy is not included.

Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	-	-217	-229	-241	-256	-271	-288	-305	-323	-341

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost