

# Empty Homes Tax Report Back

RTS 15175

MAY 10, 2023



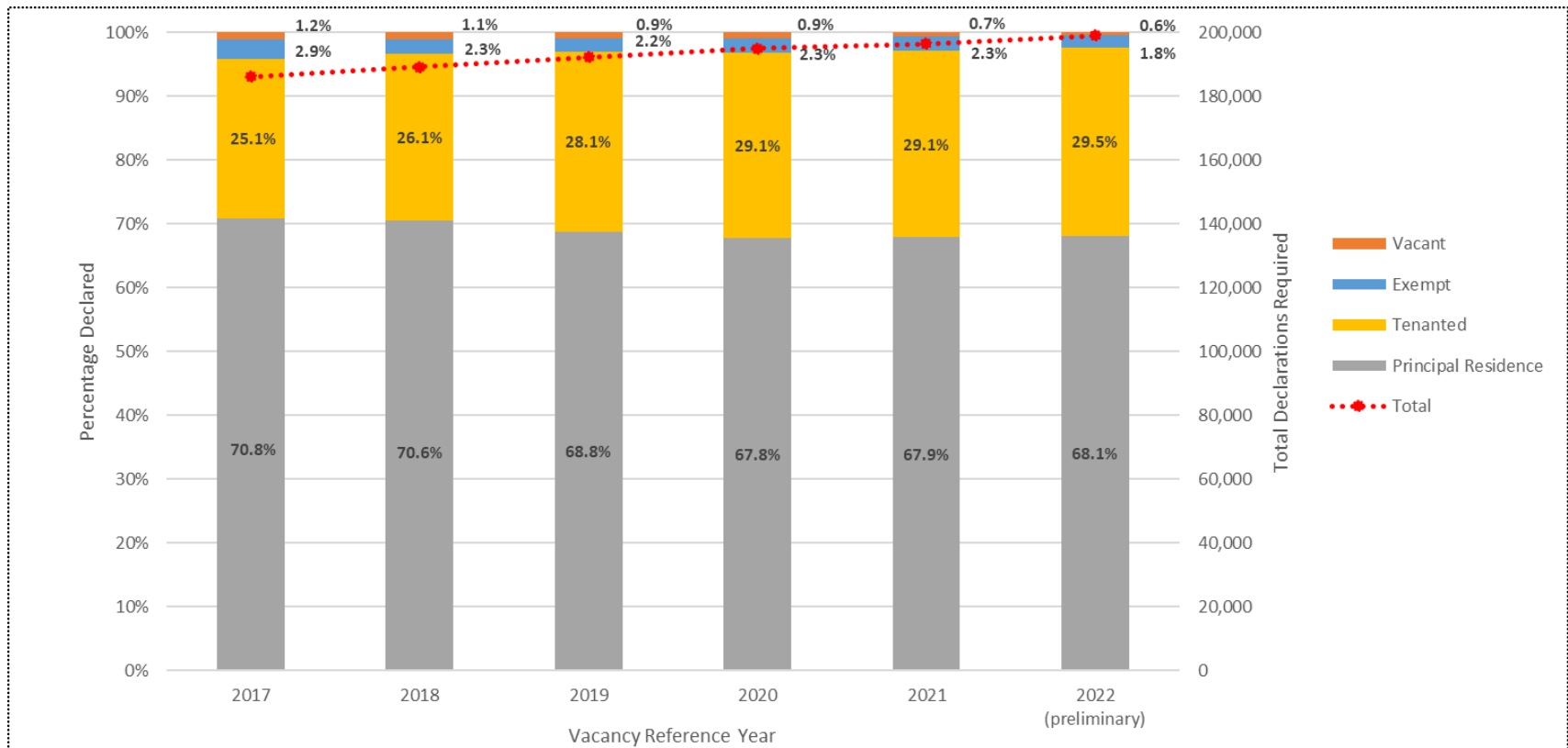
- **On April 27, 2022, Council approved a motion to:**
  - **↑** Rate from **3% to 5%** for the 2023 vacancy reference year, and
  - Direct staff to **report back** on future rate increases and how EHT exemptions might be altered to improve fairness so that those with legitimate reasons for vacancy, and/or having second property, are not penalized
- **9 recommended amendments** to the Vacancy Tax By-law (the “By-law”) to **improve the fairness and effectiveness of the tax**



# Highlights

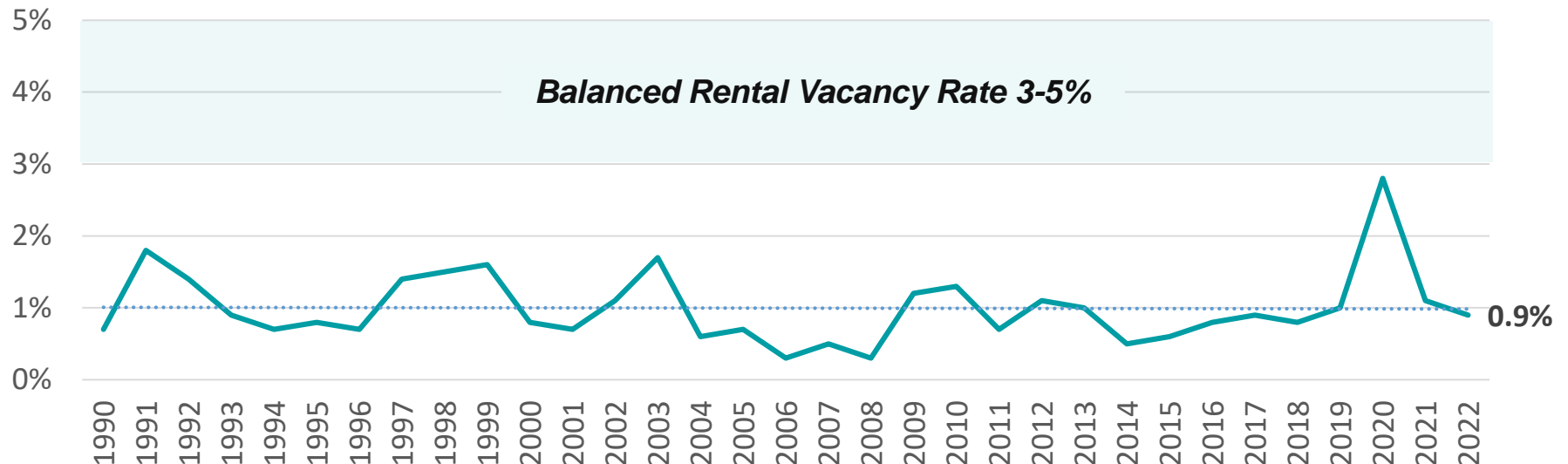
## Since EHT was introduced in 2017:

- ↓ in vacant properties (~800 less)
- ↑ in tenanted properties (~10,500 more)
- ↑ condos in the rental pool (~6,000 per CMHC in 2019)
- <1% of properties are vacant (~1,400 of 196,000)



# Highlights

- City of Vancouver continues to have a **very low rental vacancy rate**
- EHT is one of the tools to **increase the supply of rentals**
- Stacked with **other measures** including: Short Term Rental rules, rental supply policies, provincial Speculation and Vacancy Tax, and other new federal measures

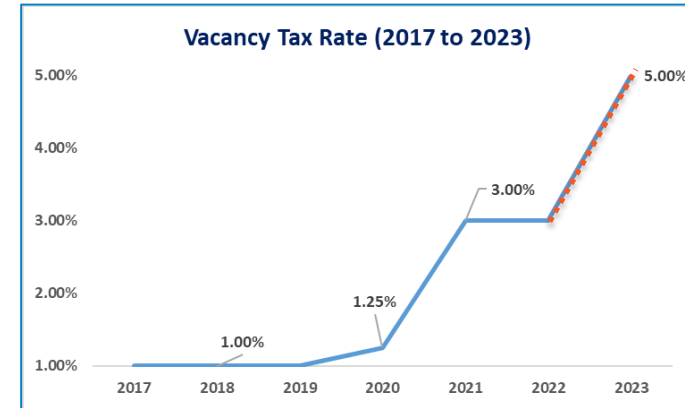


Source: CMHC Rental Market Report, 2022

Introduction of EHT

### Current:

- EHT rate has been increased multiple times since inception
- Increased to 3% in 2021 and 5% starting in the 2023 vacancy reference year
- 5% for 2023 enacted but not yet levied as the declaration period closes in Feb 2024



### Recommendation A

- Decrease the EHT rate back to 3% for 2023 vacancy reference year, thereby maintaining the 2022 tax rate

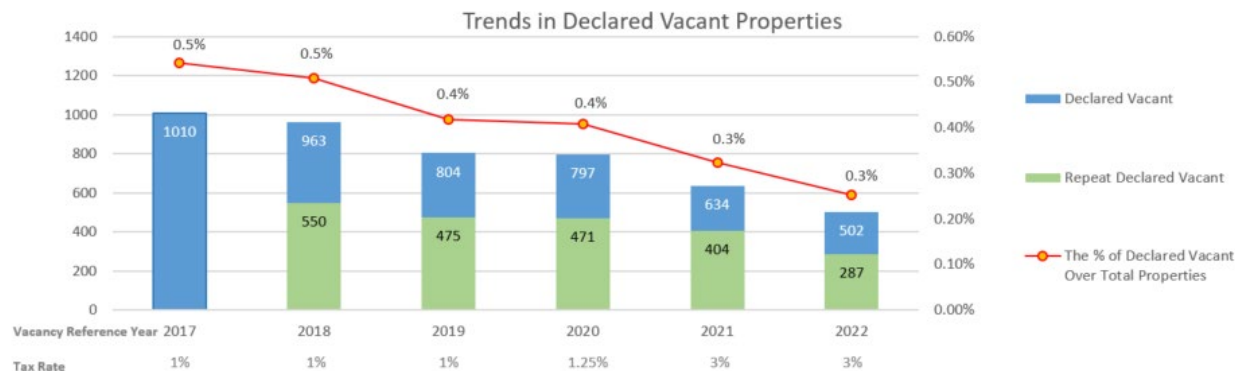
### Consideration A

- Explore a graduated EHT rate:
  - One-time vacant properties subject to a lower tax rate
  - Repeat vacant properties subject to a higher tax rate

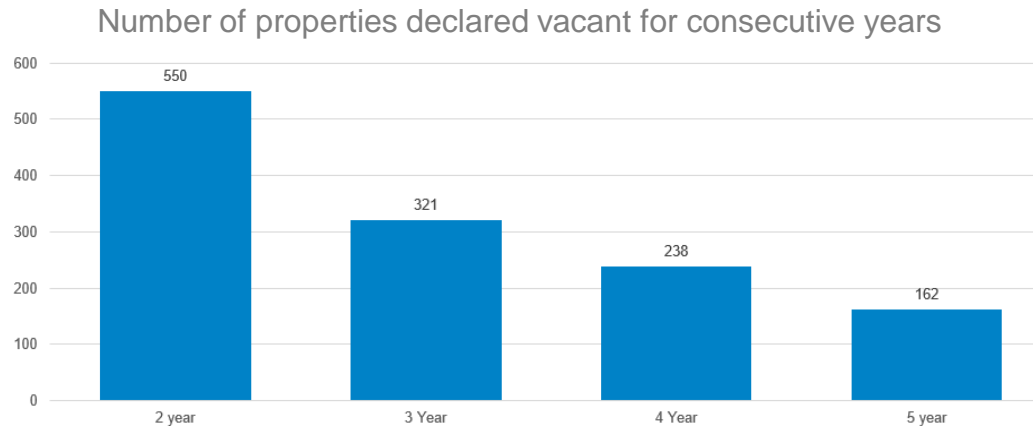


## Rationale for Recommendation A:

- Analysis of the impact of the rate increase to 3% is inconclusive, as compliance work is ongoing for 2021 and 2022
- Declaration data trend shows a decreasing trend in owners declaring vacant, however:
  - COVID-19 pandemic may be a major contributing factor in 2021 and 2022
  - CMHC reported the high rental vacancy rate in 2020 (2.6%) has decreased back to pre-pandemic levels for 2022 (0.9%)
- A higher EHT rate may increase:
  - Impact of unintended consequences of the tax
  - Circumvention of the tax (and increase the audit resources required)



Note: this chart only includes properties "Declared" vacant, and does not include Deemed (undeclared) or Determined (through compliance) vacant properties



## Rationale for Consideration A:

- Higher tax rate for longer-term properties may encourage additional conversion of these properties to being occupied
  - ~55% of properties are declared vacant for more than 1 vacancy reference year
  - 162 properties declared vacant for all EHT years from 2017 to 2021
- Reduces the impact of unintended consequences, by directly targeting repeat vacant properties. (e.g. property is vacant for a single year due to circumstances outside the owner's control, like the COVID-19 pandemic)

# Renovations/Redevelopment Exemption Recommendations B and C

## Current:

- Properties undergoing renovations or redevelopment are exempt from EHT where, **by July 1<sup>st</sup>** of the vacancy reference year:
  - A building permit has been issued (existing building on property)
  - A rezoning enquiry/application, development or heritage alteration permit has been submitted (vacant land or heritage property)

## Recommendation:

- Properties undergoing renovations or redevelopment are exempt from EHT **within** the vacancy reference year:
  - A building permit has been issued
  - A rezoning enquiry/application, development or heritage alteration permit has been submitted

## Rationale:

- Mitigate **unintended consequence** where owner may be subject to tax due to delays in the timing of their permit issuance or submission due to reasons outside of the owner's control





# Strata Rental Exemption Recommendation D

## Current:

- Strata properties are exempt where the strata by-laws prior to enactment of EHT:
  - Prohibited rentals altogether, or
  - Restricted the number of strata units that could be rented

➔ ~ 500 properties/year declare this exemption



## Recommendation:

- End application of this exemption starting in 2024
- Provide a one-time exemption for the 2023 if the property previously exempt for 2022

## Rationale:

- Since November 2022, strata rental restrictions are prohibited by the Province.
- One-time exemption for 2023 to provide owners time to, for example:
  - Occupy the property,
  - Perform renovations, or
  - Sell the property

# Vacant new inventory exemption Recommendation E / Consideration B

## Current:

- Vacant new inventory is subject to EHT if not sold by December 31<sup>st</sup>:
  - In the year of issuance of occupancy permit, if issued prior to July 1<sup>st</sup>
  - In the year following the issuance of occupancy permit, if issued after July 1<sup>st</sup>

## Recommendation E:

- Exempt vacant new inventory constructed by a developer for each year until it is sold to the end user

## Consideration B (as an alternative to Recommendation E):

- Exempt vacant new inventory constructed by a developer in the year of completion, plus the subsequent year



## Rationale for Recommendation E:

- Market uncertainty and rising interest rates may impact the ability to sell units during the exemption period
- Consistent with the Province's SVT exemption (no time limit)
- The risk that the property would remain vacant for an extended period of time after completion is low under normal market conditions

## Rationale for Consideration B:

- A time limit may encourage faster sale of units in some circumstances
- Aligns with EHT practice in other exemptions to structure exemptions with time limits
- More complex to administer compared to Recommendation E



# Uninhabitable properties exemption

## Recommendation F



### Current:

- No exemption for uninhabitable properties, unless it meets the requirements of the renovation exemption in Section 3.2 of the By-law

### Recommendation:

- Exempt properties which cannot be occupied due to a hazardous condition or disaster.
- Applicable in the year of the event and the year following

### Rationale:

- Provides owners with time to perform work required to allow property to be occupied.
- Aligns with intent of EHT to return vacant uninhabitable property to long-term housing inventory
- Consistent with the Province's SVT exemption

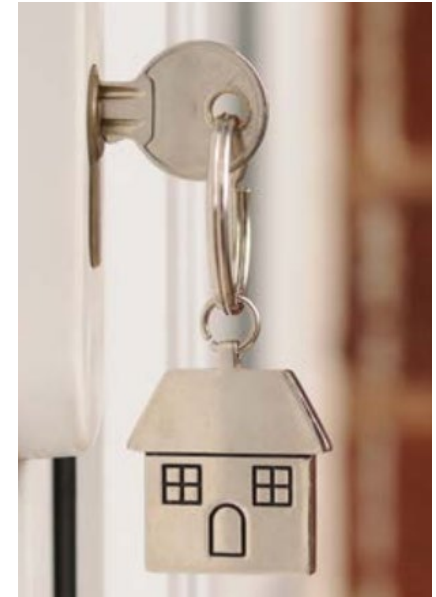
# Medical treatment exemption Recommendation G

## Current:

- Owners who own a property periodically in the City of Vancouver to access **necessary medical treatments** are considered vacant, and subject to the EHT

## Recommendation:

- Exempt properties being used periodically by the owner or owner's spouse/child to **receive medical treatment in Greater Vancouver**
- Require **medical certification** from medical practitioner to receive this exemption



## Rationale:

- Many of the regional-serving medical treatment facilities are **located within Greater Vancouver**
- **Impractical to rent** or reside in a hotel during the period of treatment.
- Consistent with the Province's **SVT** exemption

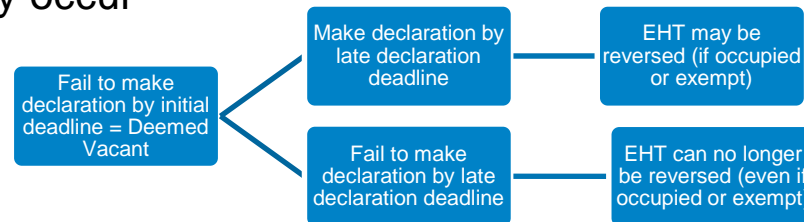
# Late declaration filing and penalty Recommendation H and I

## Current:

- Late declaration deadline is the 2<sup>nd</sup> business day of July in the year following the initial declaration deadline.
  - For example, for 2022 vacancy reference year:

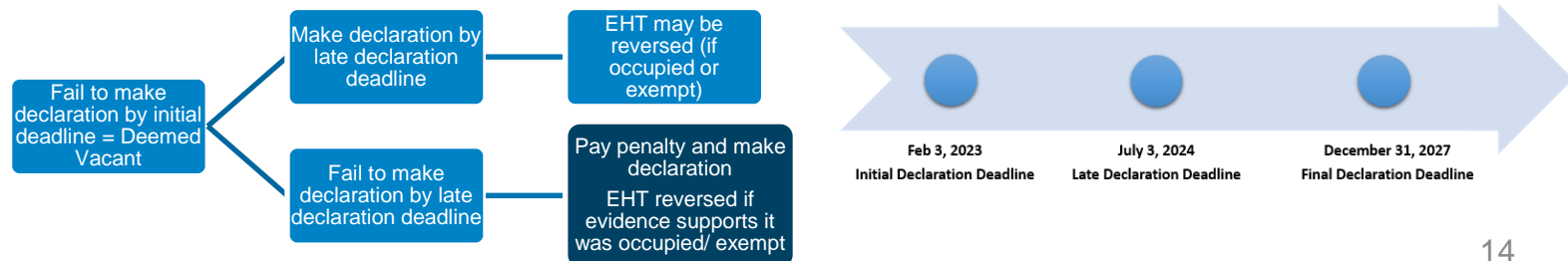


- Where owners fail to declare by the declaration deadline (2<sup>nd</sup> business day of February) – there are 2 scenarios that may occur



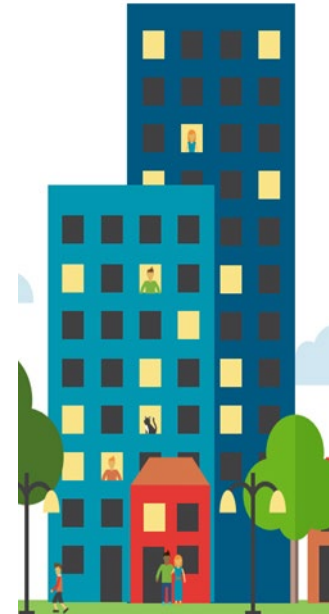
## Recommendation:

- Allow owners to make a property status declaration beyond the late declaration deadline with payment of penalty (% of EHT levy) up to 5 years
- Owners required to provide evidence to support the property was occupied or exempt to have the EHT reversed



## Rationale

- Staff have received requests from owners to file declarations after the late declaration deadline who have been deemed vacant – stating their property was not vacant
- With an average assessed property value of \$1.7M, an owner who fails to make a declaration is subject to an EHT levy of \$85K, even if property wasn't vacant
- Aligns with intent of EHT to only tax “vacant” properties
- A penalty of 5% of the levy is more reasonable (\$4K penalty vs \$85K levy)
- A penalty:
  - Encourages timely filing of declarations
  - Deters owners from submitting a late declaration where they were not occupied or eligible for an exemption



Questions?