

BC Budget 2018

Proposed Tax Changes: Impact & Analysis

by  Kelowna

Overview

- ▶ *Budget 2018*
 - ▶ Background and intentions
- ▶ Discussion & Analysis
 - ▶ Luxury tax
 - ▶ Foreign buyers tax
 - ▶ Speculation tax
- ▶ Conclusion

Increase in Luxury Tax Rate

What

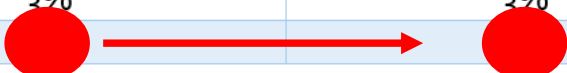
Increase in property tax rate for that portion of fair market value >\$3m from 3% to 5%.

Why

Stabilize the housing market.

Increase in Luxury Tax Rate - Analysis

Portion of Fair Market Value	Property Transfer Tax Rate	
	Before Budget 2018	After Budget 2018
0-\$200,000	1%	1%
\$200,000 - \$2,000,000	2%	2%
\$2,000,000 - \$3,000,000	3%	3%
\$3,000,000 +	3%	3%



	2015	2016	2017
Residential Sales > \$3m	8	14	6
Cumulative Difference in PTT due to Budget 2018	\$325,000	\$250,000	\$160,000

Increase in Luxury Tax Rate - Implications

- ▶ Anticipated market impact: minor
- ▶ Rational:
 - ▶ Less than 1% of residential properties affected
 - ▶ Additional taxation is modest (compared to the overall transactional value)
 - ▶ Province-wide implementation

Foreign Buyers Tax

What

Non-resident tax of 20% of fair market value of property.

Why

Ensure foreign buyers contribute more for the high quality of life they enjoy.

Foreign Buyers Tax - Analysis

► Impact on typical property types:

	Typical Condo	Typical Single Family Home	Waterfront Home
Market Value	\$332,000	\$680,000	\$3,000,000
<i>Tax Rate</i>	20%	20%	20%
Additional Tax	\$66,400	\$136,000	\$600,000

Foreign Buyers Tax - Analysis

- ▶ Size of market: ~2% of sales
 - ▶ = ~80 units/year out of 4,000 units/year sold in Kelowna
- ▶ Anticipated reduction in volume due to tax
 - ▶ Short-term decrease of 50%-75% of unit sales
 - ▶ Decrease likely not permanent

	2015	2016	2017	2018 (f)
Total Residential Sales	3,680	4,600	3,910	4,000
Est. Number of "Foreign" Purchasers	74	92	78	

Avg. of 80 units/year

decrease to

Foreign Buyers Tax - Implications

- ▶ Anticipated market impact: minor
 - ▶ Greater impact on luxury/high-end market
 - ▶ Reputational risk
- ▶ Rational:
 - ▶ Relatively small decrease in sales volume: 50-75 units/year.
 - ▶ Foreign buyers traditionally target higher-end properties.
 - ▶ Demand may shift to areas outside of tax implementation zone.

Speculative Tax

What

Annual tax of 2% of assessed value of non-exempt properties.

Why

- (1) Temper speculation and associated distortion of housing market.
- (2) Encourage homeowners to add vacant properties to long-term housing stock.

Speculation Tax - Analysis

- ▶ Speculation tax vs. vacancy tax
- ▶ Tax rate: \$20 per \$1,000 of assessed value (2%)

	Typical Condo	Typical SF Home	Waterfront Home
Market Value	\$332,000	\$680,000	\$3,000,000
Annual Property Tax (approximate)	\$1,800	\$3,600	\$16,000
Annual Speculation Tax	\$6,640	\$13,600	\$60,000

- ▶ Applicable exemptions:
 - ▶ Principle residence
 - ▶ “Long term” rental property
 - ▶ Special cases

Speculation Tax - Analysis

Impact #1:

Non-exempt BC resident home-owners

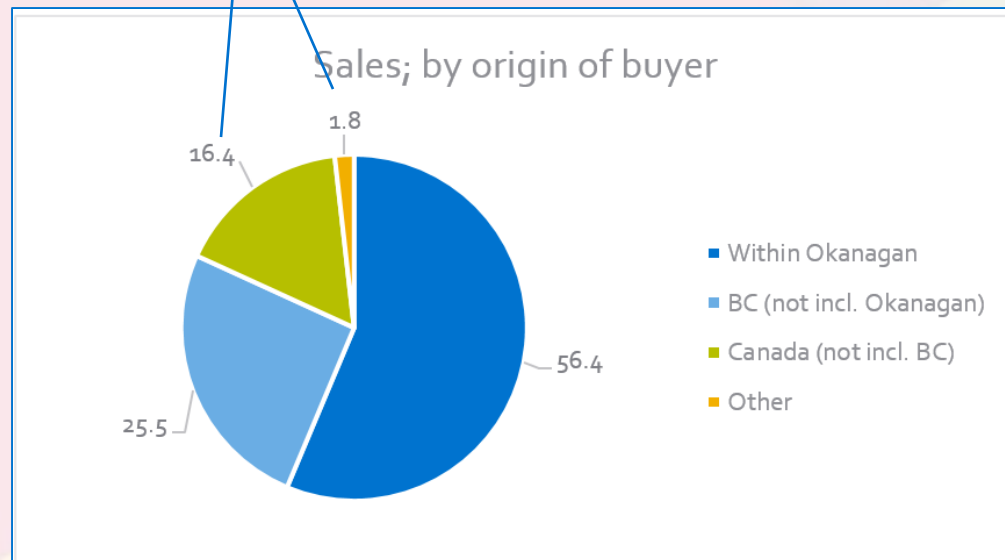
- ▶ Likely no impact:
 - ▶ Income tax credit to off-set all/portion of speculation tax
 - ▶ Potential exemption for BC residents
- ▶ Details still forthcoming

Speculation Tax - Analysis

Impact #2:

Buyers from outside BC

- ▶ Comprise ~18.2% of total market

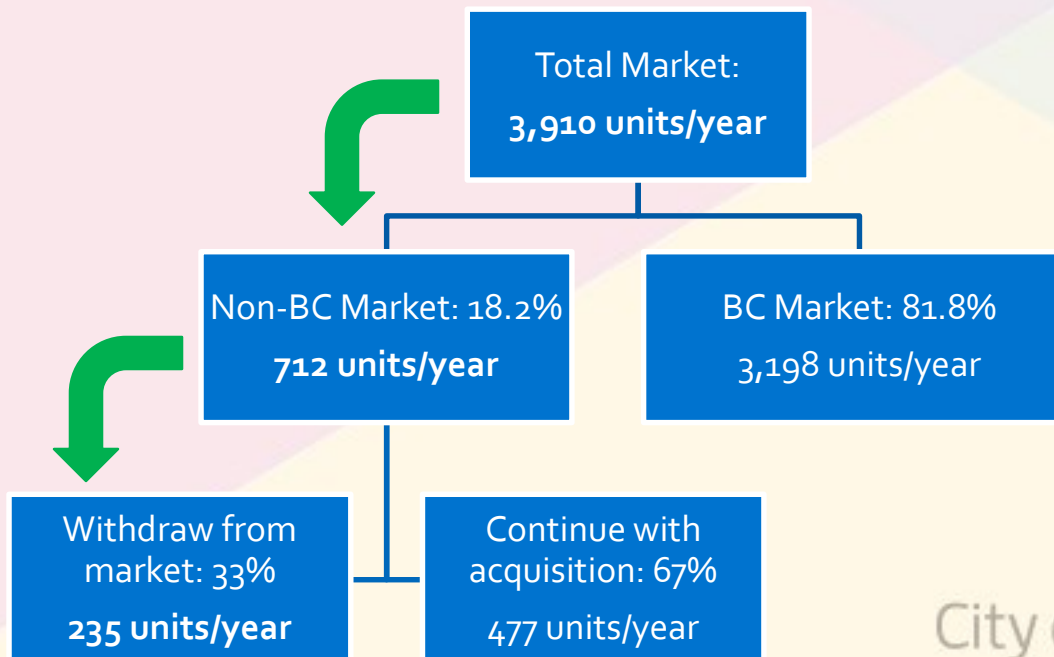


Speculation Tax - Analysis

Impact #2:

Buyers from outside BC

- ▶ potential loss of ~235 units/year

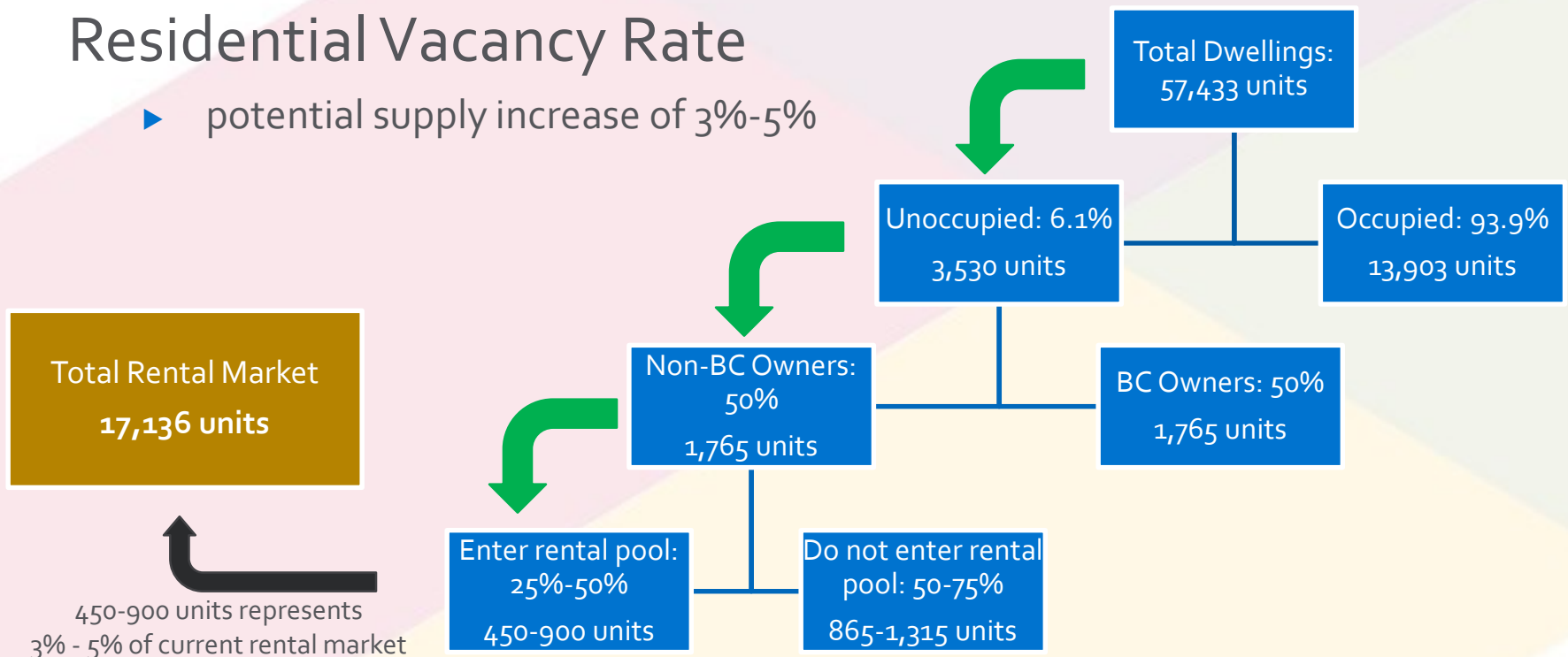


Speculation Tax - Analysis

Impact #3:

Residential Vacancy Rate

- ▶ potential supply increase of 3%-5%



Speculation Tax - Implications

- ▶ Moderate *quantitative* impact on local real estate market
 - ▶ Loss of up to 235 units/year out of 3,910 unit sales/year (~6%)
- ▶ Potentially significant *qualitative* impact on local market and economy
 - ▶ Uncertainty regarding impact of tax rules
 - ▶ Temper Kelowna's reputation as a welcoming & open community

Speculation Tax - Implications

- ▶ Shift in buyer demand to adjacent, non-tax impacted communities
 - ▶ May benefit Lake Country, Vernon & Penticton
- ▶ Potentially material increase in rental housing stock
 - ▶ +3-5% of current inventory
- ▶ Limited impact on true 'speculative' market activity
 - ▶ Vacant home tax vs. speculation tax
 - ▶ Consideration of true speculation tax as recommended in UBCM document

Conclusions

▶ Luxury Tax Rate Increase

- ▶ Limited impact on local market

▶ Foreign Buyers Tax

- ▶ Limited impact on local market
 - ▶ Potentially material impact on key sub-markets (e.g. high-end & luxury properties)

▶ Speculation Tax

- ▶ Probability of positive impact on rental market
- ▶ Likely limited quantitative impact on real estate market
- ▶ Potentially significant qualitative impact on real estate market & larger economy
 - ▶ Substantial market uncertainty
 - ▶ Negative reputational risk/tax 'stigma'
- ▶ Unlikely to deter true speculation (i.e. "flipping")
 - ▶ vacancy tax vs. true speculation tax