

March 1, 2018

The Honourable Carol James
Minister of Finance
Room 153 Parliament Buildings
Victoria, BC V8V 1X4

Via email FIN.minister@gov.bc.ca

Dear Minister James,

Re: School Tax Hike on Residential Properties Assessed at Over 3 Million

I write on behalf of the Canadian Mortgage Brokers Association – British Columbia (CMBA-BC) regarding the government’s recent announcement to raise provincial school taxes on residential properties assessed at over \$3 million.

About CMBA-BC

By way of background, the CMBA-BC was chartered in 1990 and is the oldest mortgage broker association in Canada, representing over 1600 mortgage brokers and lenders in British Columbia. CMBA-BC advocates for its members on issues impacting the mortgage industry, which has a vested interest in ensuring that homes are affordable for both property owners and their tenants.

Budget 2018 and Plans to Raise School Tax

As we all know, the provincial government recently announced its budget plan for 2018/19 to 2020/21 on February 20, 2018. The budget summary explains from the outset that the goal of the budget is to “better protect and support renters, and invest over \$ 1.6 billion in the first three years to increase the supply of affordable housing that people need.” The summary also explains that creating affordable housing is one of two key priorities for the government. This is to be accomplished by a number of measures, including increasing the school tax levied on “expensive homes”. In particular, the budget explains that the school tax will be levied against all residential class properties, at a rate of .2 per cent for the value between \$3 and 4 million, and at a rate of .4 per cent for the value exceeding \$4 million.

Hurting Housing Affordability

While we acknowledge that the government needs to raise revenue in order to fund programs, we all know that levying costs on residential property owners by increasing annual taxes, serves to worsen housing affordability. Even tax measures aimed at

property owners of higher end homes, worsens housing affordability for all property buyers, and even for renters, who are clearly not the target of these intended new tax measures. There is a cascading effect on both housing prices and rents, as increased housing costs in the form of taxes are downloaded to both buyers and tenants. As we are all acutely aware, there is a market imbalance, fueled in part by interprovincial migration and immigration, where housing demand seriously outstrips available housing supply. In this market environment, adding costs to higher end homes will put pressure on all home prices, even those of entry level homes. What may not be apparent to homes buyers reviewing the government's new tax measures at this current juncture is that the school tax will truly cost everyone, and make it even more challenging for first time home buyers to enter the market and for renters to make ends meet.

Adding Costs to Residential Tenancies

Most rental housing in BC is supplied through the personal ownership of homes, and not from corporations. Many of the residential properties assessed at over \$3 million are part of the rental housing stock, which supply much needed rental housing for those who cannot afford to buy homes. These residential properties include:

- Single family homes containing rental suites, such as basement suites or detached coach houses, typically with tenants occupying one unit and the owner occupying the main unit;
- Single family homes divided into two or perhaps three rental units, typically with tenants occupying all units in the home;
- Single family homes shared by a number of tenants, comprised of a tenant and the tenant's boarders – an example would be a home near a university which houses a group of students; and
- Residential apartment buildings included in the residential classification by the BC Assessment Authority.

As an example, one property owner with a modest, older rental home, which happens to sit on Vancouver's pricey West Side, is assessed at \$6 million with the value being almost exclusively in the land. The house is clearly not an "expensive" home, and possesses a remarkably high value simply because of its location. It contains two rental suites rented to long term tenants at a monthly rent, which would be considered "affordable" by most working British Columbians. The owner has no intention of selling the property or terminating the long-term tenancies that gross approximately \$3,200 per month. However, the new tax will increase costs to the owner by about \$830 per month by doubling its annual property tax owing. The owner is not in a position to absorb this cost and will now be faced with a decision to either the sell the property or pass the

costs onto the tenants. A new buyer would certainly evict the tenants and construct new housing on this particular lot, thereby removing two units from the rental pool.

Inflation and Lack of Indexing

There are a vast number of properties valued at over \$ 3 million which supply much needed rental housing to BC residents. In addition, with inflation and over time, as house prices continue to escalate (typically doubling every 10 years) all single family homes in the Greater Vancouver area will be valued at over \$3 million and subject to the additional school tax intended only for “expensive homes” as the tax does not appear to be indexed to inflation. The new school tax will therefore contribute to making homes more expensive and, in the long run, cause the government to fail in its quest to improve the affordability of housing in BC.

Solutions

In furtherance of the government’s stated goals of improving housing affordability, CMBA-BC therefore urges the government to consider:

- 1) Indexing the \$3 million threshold amount for the school tax to inflation, to avoid the problem of all urban single family homes being subject to it following the passage of time and price inflation; and
- 2) not levying the school tax on residential properties that are rented or partially rented at market rates. The rental of residential homes can be evidenced through declarations on income tax returns in which reasonable rental income is declared. In other words, the government should exempt or partially exempt homes assessed at over \$3 million from the application of the tax if they are part of the invaluable rental pool.

The above noted measures will help ensure housing affordability, and keep rental units currently sitting in the rental pool.

I respectfully ask that you consider these proposed solutions. Please know I am available to discuss these issues and solutions further.

Yours truly,



Samantha Gale CEO, CMBA-BC

Cc The Hon David Eby
The Hon Selina Robinson