

HOUSING TAX BACKGROUNDER

June 2, 2016

By Jordan Bateman

BC Director, Canadian Taxpayers Federation

HOUSING TAXES: THE POLITICIANS' DIRTY LITTLE SECRET

New housing in the City of Vancouver is subject to at least 107 taxes, fees or regulatory costs.

New condo housing is taxed at a rate of roughly 37%, depending on the project. We believe this to be conservative; this does not include, for example, the bump in land values brought on by the Agricultural Land Reserve; various, embedded regulatory costs; or the cost of amortizing these taxes through a 25-year mortgage.

BUZZWORDS AND THE BLAME GAME

Few issues in recent memory have sparked public debate like housing affordability. It has reached HST-debate-like levels: it permeates everything in our public discourse.

Rarely does a day go by in the Lower Mainland without a real estate story leading the front page or nightly newscasts. It features in virtually every Legislature question period, it is a debate at every city hall. It has become the new rain: the thing we all talk about, the thing we all use to start and sustain conversations, the little piece of Vancouver that we all have in common.

The buzzwords flow easily. Capital flight. Shadow flipping. The bubble. Above asking. #donthave1million.

Blame flows easily too. Shadowy Chinese billionaires. Unscrupulous realtors. Greedy developers. Insatiable speculators. Home owners hungry to cash out. Stagnant household wages. Historically low interest rates. Lack of data. Media-fuelled FOMO (fear of missing out).

Indeed, these are all factors in skyrocketing housing prices in the Lower Mainland. There isn't just one or two things causing this spike: there are dozens.

And one group that seems more than happy to point fingers elsewhere – instead of looking in the mirror at what they are contributing to housing unaffordability – are the politicians.

WE CAN'T TAX OUR WAY TO AFFORDABILITY

Vancouver Mayor Gregor Robertson has offered his solution, and unsurprisingly, given his record, [it's more taxes](#). Robertson wants both a speculation and luxury tax, although he remains nebulous on the details. Of course, in a market where home costs soar far beyond asking, one wonders if any level of tax would actually slow foreign investment.

History shows us these taxes do more harm than good. Further, nearly every tax aimed at one class of people eventually ends up hitting everyone. In the [1987 BC Budget](#), Premier Bill Vander Zalm's Social Credit government brought in the Property Transfer Tax (PTT), billing it as a luxury tax.

Back then, the higher, 2% PTT was expected to apply to just the top 5% of home sales – the elite, high-end properties. Today, it is embedded over and over again in new housing construction, driving up prices. Every time a piece of property worth \$750,000 or more changes hands, PTT must be paid. That can happen a few times before it finally ends up in the hands of the final homeowner, adding more and more cost.

As Saanich councillor Paul Gerrard, a former chair of the Capital Region Housing Trust Commission, [told the Times Colonist](#) in 2013, “The PTT is one of the main reasons that housing is unaffordable for many [greater Victoria] residents, and many people are unaware of the multiplying impact it has on housing purchases. It is an open-ended and continuous collection of a tax on every change of ownership of a property.”

So today's *luxury tax* can turn easily into tomorrow's *everyone tax*. And any increased cost, including higher taxes, makes things more expensive, not cheaper.

There is no doubt that Chinese capital, shadow flipping, unscrupulous agents and other causes of high housing prices must be tracked, debated and addressed. But politicians should also look in the mirror – instead of simply blaming other levels of government, they should assess the impact of their own tax and regulation policies on the cost of housing. And how city hall bureaucracy slows the number of new homes coming to market – a glacially slow supply responding to very high demand.

SUPPLY ISSUES

The Greater Vancouver Board of Trade, in its [inaugural Economic Scorecard report](#), suggested that housing affordability could be addressed by, “either a reduction in demand for homes or an increase in supply.” It recommended restrictions on foreign buyers in conjunction with growing the supply of new homes: “Housing supply could be

boosted by policies that support intensification (building up) and that increase residential land availability (building out).”

Across B.C. in 2015, just [30,505 new homes](#) were registered. Despite that relatively low number, it was still a 11.3% increase from the year before. Roughly two-thirds of those new homes were located in the Lower Mainland, meaning just 20,000 new residences were commissioned in a year of massive price jumps and incredible demand. This barely kept up with the more than 30,000 new people who moved to the region last year – constricting supply for younger Lower Mainlanders and others looking to buy their first homes.

How tight is supply? More than 50 prospective homebuyers in Langley lined up for nearly three weeks in a makeshift tent city to snap up the latest phase of the massive Yorkson Creek condo development.

To help first time home buyers into the market, and to give options to those looking to downsize, the Lower Mainland needs more supply of housing. To get there, politicians need to rethink the level of taxes and regulations they impose. These constrict new housing, slowing the process of building to a virtual crawl. It also adds a huge cost to the new homes, pricing them further out of reach for the people who need them.

An infusion of new homes is the best way to address the Lower Mainland’s affordability crisis.

OVERTAXED NEW CONSTRUCTION

The list of taxes, fees, levies and regulatory costs on new home construction in the City of Vancouver is long. (Visit [this web link](#) to see the list, each annotated with a description, calculation formula, the relevant public body and a link to the relevant bylaw/regulation.)

Federal Government:

- Goods and Services Tax on purchase
- Income tax
- Employment Insurance
- Canada Pension Plan
- Duties and Tariffs
- Fuel tax
- Goods and Services Tax on fuel

Provincial Government:

- Property Transfer Tax

- Provincial Sales Tax
- WorkSafeBC levies
- Income tax
- Fuel tax
- Carbon tax
- HPO "Leaky Condo" Levy
- Energy Efficiency Regulations
- Connection fees
- Strata registration fee
- Agricultural Land Reserve impact

Municipal (Including Regional) Government:

- Municipal property tax
- Regional property tax
- TransLink property tax
- Development permit fees
- Rezoning fees
- Subdivision fees
- Building permit fees
- Air space permit fees
- Occupancy permit fees
- Demolition permit fees
- Green demolition permit fee
- After hours building permit inspection fee
- Plan review in overtime fee
- Special inspection or reinspection fee
- Drainage tile inspection
- Building renumbering fee
- Plan inspection fee
- Plan copy fee
- Building permit extension fee
- Building permit extension by council fee
- Plan evaluation fee, single family
- Plan evaluation fee
- Re-occupancy permit fee
- Alternate building solution evaluation application fee
- Existing condition mitigating feature evaluation fee
- Alternate solution review panel fee
- Alternate solution resubmission fee
- Plumbing permit fee
- Water connection fee
- Plumbing alteration fee

- Hydrant and sprinkler system inspection
- Sprinkler head inspection fee, single family
- Sprinkler head inspection fee
- Sprinkler head inspection fee, renovations
- Fireline inspection fee, different components
- Fireline inspection fee, backflow preventer
- Fire pump inspection fee
- Fire hydrant inspection fee
- Plumbing reinspection fee
- Plumbing reinspection fee outside normal hours
- Sewer inspection fee
- Tree removal permit fee
- Electrical permit fee
- Temporary power permit fee, single family
- Temporary power permit fee
- Annual electrical permit fee, per location
- Electrical inspection fee
- After hours electrical inspection fee
- Secondary suite inspection fee
- Gas fitting inspection fee
- Commercial gas fitting inspection fee
- Vent inspection fee
- Gas piping permit inspection fee
- Gas permit reinspection fee
- After hours gas permit inspection fee
- Area development plan amendment fee
- Official development plan amendment fee
- Regional or provincial land use designation amendment fee
- Site profile review fee
- Environmental contamination research fee
- Street elevation building grade review fee
- Street elevation building grade review fee - survey provided
- Bylaw copies fees
- Secondary suite inspection fee
- Business license fees
- New lawn watering permit
- Fire hydrant use permit
- Deconstruction fees
- City property landscaping costs
- Energuide assessment
- Parking meter rental
- Sidewalk rental

- Off-site service charges
- Letter of credit fees
- Public works construction costs
- Shoring and anchor rod
- Development Cost Levy
- Greater Vancouver Sewerage and Drainage District Development Cost Charge
- Community Amenity Contribution
- Heritage Density Purchase
- Affordable housing contributions
- Public art contribution
- School site acquisition
- Electric vehicle charging stations
- District energy system connection
- Car share spaces and vehicles
- Public bike share stations
- Fuel tax
- Qualified safety watcher - trolley bus wires
- TransLink review

Nearly every one of these taxes also requires paperwork. Plans, reports, signoffs, changes, approvals: all of this contributes to the time it takes to get new housing built. The longer it takes to build a new home, the higher the carrying cost (the monthly upkeep, taxes, maintenance, utilities, etc.) for the builder. The higher the carrying costs, the higher the final price paid by the buyer.

Are all of these necessary? Certainly there are many fees that make sense, recovering important costs. But there are also examples of exorbitant overregulation.

Take the requirement for builders to hire a Trolley Overhead Safety Watcher when they are working near TransLink bus trolley lines. A unionized worker must be hired, at \$90 per hour (\$135 per hour for overtime shifts of longer than eight hours), to watch the trolley bus wires. There are no special qualifications for this job; it is usually filled by a retired bus driver, not an electrical expert. This watcher sits in a lawn chair, watching the wires. But even if a crane inadvertently came close or even clipped the trolley wire, the watcher has no ability to contact the crane. This adds as much as \$300,000 to a building project in Vancouver, a builder told us.

Another example is the expensive, high-end level 2 electric vehicle charging receptacles required for 20% of parking spaces.

It's worth remembering that there are only 3,100 electric and hybrid plug-in vehicles in all of British Columbia. There are nearly 300,000 non-electric vehicles licensed in

Vancouver. Even if every single one of those electric vehicles reside in Vancouver, that still works out to just 1% of vehicles, making this requirement onerous.

What the City of Vancouver fails to realize is that the electrical code requires a building to be designed to operate with every single outlet being used at highest possible level. Even though the vast majority of buildings never hit even half of that potential, it has to be designed for the maximum load possible. Adding that level 2 charging requirement can increase a building cost by as much as \$400,000.

Read www.buildinginvancover.com for a real-life example of the regulation and fees involved in building a single-family and laneway home near Main and 41st in the City of Vancouver. There is no reason why it should take a routine housing application nine months to get a permit – adding more carrying costs for the builder.

On top of that lengthy permitting process, single-family home builders face a myriad of ridiculous, costly requirements. Drains and plumbing for an accessible washroom and shower must be installed on the main floor of the house; even if there is no bedroom on the main floor. And that's on top of an installed accessible shower on the floor with the bedrooms.

All trees, even the dead ones, need a permit to be removed. And a tree plan, and an arborist review. And, sometimes, a plumber's report. And the city still sends a staffer to look at it.

A certified energy advisor must also be hired to check plans and run a blower test when the home is built, even though it's too late to change anything at that point.

Rather than encourage new housing, city hall seems to act like it's a nuisance that should be eradicated – or a cash cow that should be milked for every single nickel. Builders are charged to rent sidewalks and parking meters during construction. To “rent” the sidewalk, costs \$2 per day per square metre of sidewalk. This can add as much as \$100,000 to a total project cost.

If there are parking meters along the building, that costs too: builders must rent parking meter space, paying the maximum daily parking charges for the duration of construction. This can add another \$50,000 to \$100,000 to the cost of the project.

COST OF GOVERNMENT ON NEW HOUSING

So what do these costs add up to? Just how much of the price of a new condominium in Vancouver goes to government?

The Canadian Taxpayers Federation (CTF) surveyed several local builders to try and answer that question. It was difficult – so many of these costs are embedded into various purchases that it is difficult to pull them all out.

After working through hundreds of pages of academic research, government bylaws and inane, arcane regulatory requirements, sending nearly 600 emails, making countless phone calls, and working through dozens of meetings with various homebuilders and experts, the CTF has calculated that, conservatively, taxes and regulations add at least 37% to the cost of new condos in the City of Vancouver.

Take a real-world condo that sold in 2014 for \$403,809. Without the \$109,118 spent in taxes and fees on that condo, it could have sold for \$294,691. Taxes added at least 37% to that price:

Federal Government

- GST - \$18,615
- Income tax, EI, CPP - \$23,000
- Total: \$41,615

(Note: this federal amount does not include any corporate income tax or higher costs due to duties and tariffs on items such as windows and steel.)

Provincial Government

- Property Transfer Tax - \$6,163
- Provincial Sales Tax - \$9,025
- HPO "Leaky Condo" Levy - \$790
- HPO Fees - \$950
- Total: \$16,928

(Note: this provincial amount does not include any corporate income tax)

Municipal Government

- Various property taxes - \$2,167
- Development and building permit fees - \$267
- Rezoning fees - \$352
- Subdivision fees - \$1,606
- Off site service charges - \$3,134
- Development Cost Levy - \$10,911
- Community Amenity Contribution - \$8,139
- Heritage Density Purchase - \$22,544
- Public art contribution - \$1,364
- Car share spaces and vehicles - \$91
- Total: \$50,575

Worse, for the vast majority of condo buyers, these taxes are financed through their mortgage. Borrowing drives this tax cost up. If a buyer put down 10% for this purchase and amortized the rest over 25 years, \$29,871 in interest is added to that tax burden. Add that \$29,871 in interest to the original \$109,118 spent in taxes, and the total tax bill comes to \$138,989.

This is a conservative estimate. Some research indicates the provincial government's Agricultural Land Reserve (ALR) pushes land prices up by as much as [22%](#), or roughly 10% of the overall property value. At 10%, that would have shifted another \$29,469 (\$37,535 amortized) from the building cost to the tax bill.

We further believe there could be an additional 7% in WorkSafeBC levies, tariffs, other taxes and government costs hidden in the price, through paperwork, hidden duties, or lengthened holding costs due to slow government processing. That works out to another \$20,628 (\$26,274 amortized).

Add those two line items – ALR and further hidden taxes, and the overall tax burden on that condo is \$159,215. On the \$244,594 that went to building the condo, that works out to a tax rate of 65%. Amortized through their mortgage, the total tax cost to the purchaser reaches \$202,798.

A LITTLE LESS CONVERSATION, A LITTLE MORE ACTION

Nothing moves unless it is pushed. Public pressure can be a powerful motivator, especially with a provincial election less than a year away and municipal politicians already in the second half of their mandates.

The public should call on these politicians to bring forward a comprehensive plan to deal with housing affordability – including a focus on government costs on new housing. We must demand tangible moves to increase supply and reduce costs.

It is not enough for politicians to blame others; they must examine their own contributions to housing unaffordability.

Where can they streamline processes? How can they reduce the cost burden on new housing? Can they strike a deal with builders to relax or eliminate certain requirements in return for a corresponding drop in housing prices? Are all 107 taxes truly necessary?

The CTF supports a regional commission into housing prices and supply, looking at ways to cut red tape, reduce costs, and increase supply. Every single cost and regulation should be re-examined to ensure it is absolutely vital. Community amenity contributions in the City of Vancouver need to be rethought to reduce costs to homeowners. Other municipalities considering Vancouver levels of home construction taxation should be

encouraged to reject those schemes. The proposed TransLink development cost charge should come with a corresponding decrease in existing development cost charges and community amenity contributions – in essence, it should come out of the politicians’ share, not the home buyers’.

The public should seek out and support political candidates willing to tackle these issues of unaffordability and lack of supply. It’s easy to support a tax on someone else – but as Property Transfer Taxes prove, those luxury taxes can morph into everyone taxes fairly easily.

Further, the CTF supports the provincial government’s intention, as stated in [the 2016 Throne Speech](#), to “work with municipalities to reduce the hidden costs in home purchases, and to make those hidden costs clear and transparent to the homebuyer.”

To support this effort, the CTF’s British Columbia office is embarking today on a [campaign](#) to fight for lower housing taxes and increased supply.

With 107 taxes increasing condo housing costs by 37% in the City of Vancouver, the debate around affordability must grow to include government’s role. The CTF’s efforts will include continual reminding of politicians’ role in housing affordability, more analysis of the tax burdens in Vancouver and other BC cities, and [a petition](#) for people to sign to call on politicians to reduce the tax burden on new housing.

Over the coming months, we will offer specific solutions and share some of the crazy tax and government regulation stories the building industry is dealing with.

Taxes and regulation are by no means the only cause of high housing costs in the Lower Mainland – but it is a piece of the big picture puzzle that must be addressed.

CONCLUSION

High taxes and heavy regulatory burden on new housing is slowing everything down and adding even more cost. It does not make sense, in an undersupplied, red-hot market, to levy more than 100 taxes and fees on something we need so desperately.

There are many things affecting the cost of housing that should be addressed, but politicians constricting supply through high taxes and red tape is a key factor.