B.C.’s foreign-buyer tax will turn political liability into revenue bonanza

By Gary Mason
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If anyone needed evidence of just how hot a political issue rising house prices in Metro Vancouver has become, it was supplied on Monday by the B.C. government in the form of an extraordinary measure aimed at cooling off a market that has become too hot for many to touch.

The government announced it would introduce a 15-per-cent tax on foreigners buying residential real estate in the province. After the province had insisted for months that it did not want to punish foreign buyers or do anything that might discourage overseas investment, the decision was one few saw coming.

This week, the government will also table legislation to allow the city of Vancouver to tax vacant homes, mainly condominiums, obtained primarily as investments and not lived in. By one estimate, there could be 10,000 or more such units in a city where available rental housing is almost non-existent. Earlier, the government ended self-regulation of the real-estate industry and the incendiary practice of shadow-flipping.

But the foreign tax is the measure people will be talking about for some time.

It’s a bold move by Premier Christy Clark, who was acutely aware of how politically damaging the issue was shaping up to be for her government with an election less than a year away. Poll after poll showed the public was furious over the widely held view that the government was doing nothing to mitigate the impact of foreign investors on the housing market, while the middle-class dream of home ownership became a distant reality for more and more young people.

It was obvious Ms. Clark had to do something to quell the growing anger and vitriol aimed at these rich buyers, primarily from mainland China, who are using the Metro Vancouver real estate market as an investment haven for their money. Until she dealt with the matter, housing was going to remain a serious political liability.

So the government looked around at what other jurisdictions were doing to deal with a similar problem and decided on a tax of 15 per cent, the rate Singapore applies to foreign real-estate purchases there. Singapore initially introduced a rate of 10 per cent and found it had no meaningful impact on the surge in home prices; 15 per cent did. Hong Kong has a similar tax that ranges from 5 per cent to 20 per cent depending on certain factors. British Columbia was not prepared to go as far as Australia, which has federal and state taxes on foreign purchasers and generally restricts foreign purchases to new detached homes and apartments.

Whether the B.C. government’s new tax measure is enough to temper the rising tide of resentment in the province remains to be seen. But one thing is clear: Real estate has become as important to the province’s coffers as oil is to Alberta. It is now a massive industry that is pouring hundreds of millions of dollars into the treasury.

Last week, Finance Minister Mike de Jong revealed the province finished the past fiscal year with a $730-million surplus, about half a billion over forecast. The province’s tax on all home sales brought in $1.53-billion, $605-million more than budgeted and a 44-per-cent increase over the previous year. Now this new tax will add even more.

Data the finance ministry collected recently showed about $800-million in foreign purchases of homes over a five-week period in June and July of this year. The government’s new tax would generate an additional $120-million in revenue on the same volume of sales. Assuming the levy does not stop the flow of foreign purchasers to the region over the coming year, it will add hundreds of millions more to the province’s revenue picture – money that will help fund further housing initiatives the Clark government intends to take.

As for the potential cooling effect the tax might have, count me as skeptical. Many of the foreign buyers this move is aimed at, are bidding up to $600,000 (and sometimes much more) over the asking price in some cases. A 15-per-cent tax is not going to discourage them from buying property here. They will simply chalk it up as the cost of doing business.

In the meantime, the Clark government appears to be doing what it can to let some of the air out of the market, while reaping a revenue bonanza that liquefied natural gas was supposed to produce.