

# Ontario urging Ottawa to change tax rules to curb real estate speculation

By Alexandra Posadzki

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Ontario Finance Minister Charles Sousa is urging Ottawa to address speculative investing in the country's housing markets by changing how such profits are taxed.

Currently, a capital gains tax is charged on 50 per cent of the profits on the sale of a home unless the property qualifies for a principal residence exemption.

In a letter to federal Finance Minister Bill Morneau dated Friday, Sousa says that boosting the taxable amount above 50 per cent could reduce the incentive for people to purchase homes on speculation.

Morneau is set to release his latest budget on Wednesday amid speculation that the Liberals may increase the capital gains tax.

Jack Mintz, a tax policy expert at the University of Calgary, says that doing so could harm innovation by discouraging people from making risky investments.

Mintz also noted that increasing the capital gains tax charged on homes may not have a big impact on speculative activity.

“Will it stop speculation? I'm not sure,” says Mintz. “It may not entirely change it.”

Speculative investing in the real estate market — buying a home in the hope of turning a profit rather than to live in — is believed to be one of the culprits behind soaring house prices in certain markets, particularly in Toronto, Vancouver and their surrounding areas.

A TD Bank report published Monday says that the combination of strong demand for homes and the lack of available supply have created the “perfect eco-climate” for speculators.

“The continued escalation in home prices may have generated a greater tendency towards flipping homes for a profit,” the report by TD economists Beata Caranci, Diana Petramala and Katherine Judge says.

Sousa says curbing speculative real estate purchases could help address dwindling housing affordability so that first-time buyers are able to get into the market, while also generating tax revenue to put towards other housing affordability initiatives.

“My primary focus is to address the concerns of middle-class Canadians who are worried about buying their first home,” Sousa says in his letter to Morneau.

“Additionally, it is important that the housing market remains stable, meaning that borrowers and lenders are resilient and able to withstand economic shocks.”

Sousa has also floated the idea of implementing a tax on foreign buyers, similar to the one that the B.C. government introduced in Vancouver last summer, in a bid to cool the red-hot real estate market in Canada's largest city.

However, the Toronto Real Estate Board opposes the idea, saying it would do little to curb rising home prices.

When asked Monday if the foreign buyer tax was still on the table, Sousa emphasized that the government is considering a myriad of possible options to tackle housing affordability.

“We are looking at a number of opportunities, a number of options,” Sousa said.