The ethical case for taxing foreign home buyers

By Josh Gordon
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Foreign capital is playing an important role in the real estate markets of Toronto and Vancouver, and has for some time. As political leaders debate its impact and possible policy measures to alleviate its attendant issues, it is important to think clearly about the ethics of foreign ownership.

Predictably, those who want to stymie or avoid policy action in this area have alluded to "xenophobia" to deter critics. Even some well-intentioned people have given credence to these claims.

Yet curtailing or taxing foreign ownership is not xenophobic, especially if policy is properly designed. Xenophobia is the irrational or unjustified fear of foreigners. Concerns about the impact of foreign ownership are about flows of money, not people, and they are certainly justified in Toronto and Vancouver.

Foreign ownership raises two main ethical problems. First, those who buy based on foreign income or wealth often have access to money in ways that are unavailable to local residents. This means that locals are potentially put into disadvantageous, or unfair, competition for real estate where they live.

Second, people who buy property based on foreign income or wealth may not have contributed much in Canadian taxes, which is largely what makes the property so valuable in the first place. Canadian real estate has become an attractive place to stash international money for a variety of reasons – we don't effectively enforce money laundering regulations, we have relatively low property-tax rates and the enforcement of capital gains taxes has been lax. But real estate in Canada is ultimately attractive because of the country's stable institutions, its public infrastructure and its social cohesion.

These latter things are paid for, or fostered by, taxes collected from Canadians – income taxes in particular. At a minimum, then, Canadians should have preferential access to property ownership, since they are paying for what makes it so valuable.

It is precisely for these reasons that we see nothing ethically problematic about charging foreign students more in tuition at Canadian universities. Residential property is no different.

Concerns around foreign ownership are especially potent when money is arriving from societies where corruption is widespread, and when foreign money is playing a significant role in driving up prices. Both apply in the cases of Toronto and Vancouver.

Tired claims about "letting the free market operate" lack force in this context. When money is arriving from societies that are hardly "free markets," such discussions lose all meaning.

There are solid ethical grounds, then, to curtail foreign ownership, or at least to tax it. And while older generations may not be as fearful of unfair competition for property, since they may already own it, impartiality requires that they recognize its unfairness: they would not want to be put into competition themselves for property with vast amounts of offshore money – some of it dodgy – so they cannot plausibly maintain that it is acceptable for younger Torontonians and Vancouverites.

Indeed, older generations largely agree. They see the struggles of younger generations, often their own kids and grand-kids, and they empathize. That's why around 80 per cent of Vancouverites have consistently supported measures to curtail foreign ownership, with nearly that many concurring in a recent Toronto poll.

This understanding of the issue can also inform policy. The primary issue is the source of income and wealth for ownership, not citizenship.

We can then better design a foreign-buyer's tax, which is needed to calm Toronto's frenzied market. A foreign-buyer's tax can be refunded to individuals to the extent they pay income taxes – the amount they pay in the three years following a purchase, for instance. This makes it clear that the tax need not discourage entrepreneurial talent from abroad, as claimed by Toronto Mayor John Tory.

This understanding of the issue also leads straightforwardly into the proposal by many economists in British Columbia, including my colleague Rhys Kesselman. Provincial governments should introduce an annual property surtax on expensive homes that can be offset by income taxes paid, while exempting seniors with sustained CPP contribution records. This continuous surtax would powerfully target foreign ownership, and would thereby reconnect the local housing market to the local labour market. Recent immigrants working in Canada would have little to fear from such a measure.

It is hard to see what the ethical case against such measures would be, nor do they seem plausibly xenophobic.

Those genuinely concerned with xenophobia should also consider the following. What is more likely to encourage xenophobic populism? A young generation priced out of their hometown cities and a housing bubble that eventually pops and creates major economic dislocation, all while public authorities sidestep legitimate concerns about foreign ownership with insinuations of xenophobia. Or a world where governments respond to legitimate, broadly held concerns and reconnect the housing markets of major Canadian cities to their labour markets.

The answer seems obvious to me.

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