Ontario considers housing tax for non-resident speculators

By Justin Giovannetti
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Seeking to tame a roaring housing market in greater Toronto, the Ontario government is considering a speculation tax on home purchases by non-residents, The Globe and Mail has learned.

While details are not available yet on how a non-resident speculation tax would be implemented, the province is “looking at it intently,” according to a senior official who spoke with The Globe. The tax was one of a number of approaches that were studied over the past few months as the province prepared a much-touted housing affordability package aimed at cooling the red-hot housing market, partly by curbing demand.

The proposed measure comes as Mayor John Tory of Toronto prepares for a pivotal meeting with the federal and Ontario finance ministers on Tuesday to discuss the affordability of housing in Canada’s largest city, a situation that has gained urgency in recent weeks as soaring prices have alarmed home buyers and leaders from across the country, some of whom have warned of a housing bubble. In March, home prices in the Greater Toronto Area for both houses and condos were up 33 per cent compared with a year earlier.

The average price of a detached house in the GTA surpassed $1.21-million last month, a level beyond the financial means of many families looking to buy their first home. Prices in surrounding regions have also jumped as families are priced out of the Toronto market. Ontario Finance Minister Charles Sousa has warned of mounting anger as Ontarians searching for homes lose one bidding war after another.

The housing situation took centre stage last week as Premier Kathleen Wynne responded to growing concerns by meeting with mayors from the GTA to discuss how to remedy the situation.

Mr. Sousa indicated that new housing measures would target speculators and Bank of Canada Governor Stephen Poloz warned that speculation was “unsustainable” in Toronto’s housing market. While British Columbia has adopted a foreign-buyers tax to cool an overheated housing market, Ontario’s proposal could limit that tax only to foreign speculators – it’s unclear whether it would also be targeted at non-residents of Ontario who are Canadian citizens.

On Monday, Mr. Tory said he planned to discuss another type of proposed tax, a vacant-property tax, as well as the lack of real estate data in Toronto, when he meets with Mr. Sousa and federal Finance Minister Bill Morneau. The meeting will mark the first time the three have met in person to discuss the situation.

“Probably one of the most important things we can do is stay in touch with each other on something that is as volatile and complicated as this issue,” Mr. Tory said on Monday.

“You don’t want to cause undue upset in a marketplace, notwithstanding the deep concern people have about the affordability of housing.”

New measures aimed at the housing market in the GTA could come as soon as April 27, when Mr. Sousa tables his next provincial budget. The Finance Minister has dismissed housing speculators as “property scalpers” but has admitted there is little data to show how widespread the problem might be.

It is not clear how the measure being considered in Ontario would differentiate between a foreign buyer and a foreign speculator.
Foreigners might make up 4 per cent to 5 per cent of buyers in Toronto’s housing market, according to Jean-François Perrault, the chief economist at Bank of Nova Scotia; however, he added those figures are only anecdotal. The number of foreigners who are speculating in the market could be much lower.

While levying a non-resident speculation tax could alter the psychology of Ontario’s housing market and convince buyers betting on future price increases to hold off or risk more intrusive measures in the future, the economic effect of such a tax could be limited, according to Mr. Perrault. “If you are fundamentally trying to alter market dynamics, it isn’t clear a foreign-buyers tax has a substantial impact,” he said.

Mr. Perrault has recommended that the province adopt a form of speculation tax.

In Ontario, the buyer of a home pays a land-transfer tax; his proposal would have a seller who flips a house within a short amount of time pay a special land-transfer tax.

“The more speculative in nature your transaction is, the shorter you hold it, the more expensive we make it for you,” he said.

The federal government has already taken steps to cool the market since 2015, including a higher requirement for down payments on homes of more than $500,000 and a stress test on insured mortgages to determine whether a borrower could still make payments if interest rates rise or incomes decline.