

The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 4, 2023

Report of the Commissioner of Finance, the Commissioner of Community and Health Services, and the Chief Planner

Vacant Home Tax Status Update

1. Recommendations

1. Further consideration of a Vacant Home Tax for York Region be deferred to ensure alignment with the Province's Vacant Home Tax Policy Framework and the use of more updated cost and benefit estimates based on the current economic and legislative environment.
2. Staff be directed to continue monitoring the program outcomes of other Ontario municipalities to identify best practices and potential opportunities to streamline administration and reduce costs through joint partnerships.
3. Staff report back in 2024 with a refined proposal based on the recommendations above.
4. The Regional Clerk forward this report to the local municipalities for information.

2. Summary

Since [October 2021](#), Regional Council has been considering a potential Vacant Home Tax for York Region and directed staff to conduct a feasibility study and public benefits review. The outcome of this study was presented to Council in a [September 2022](#) report. Council then directed staff to develop a proposed program design and a draft bylaw.

Key Points:

- Beginning in April 2017, designated Ontario municipalities could levy an optional tax on vacant residential units (Vacant Home Tax) to encourage homeowners to return unoccupied properties to the rental or resale markets to increase housing supply and improve affordability
- Cities of Toronto and Ottawa have implemented a tax on vacant homes starting with the 2022 reference year and the City of Hamilton is implementing a tax for 2023
- While no upper-tier municipalities have introduced a similar tax, the Regions of Peel and Halton are considering implementing one for the 2024 reference year

- Stakeholders were consulted again through late 2022 and early 2023 to support the development of an initial program design and administration approach
- In December 2022, the Province launched a provincial-municipal working group to facilitate the development of a policy framework for Vacant Home Taxes. The Region's Vacant Home Tax program design will have to comply with this framework.
- Recent federal legislation on foreign buyers and underused housing as well as higher interest rates could have the impact of reducing the number of vacant homes in York Region, and therefore may affect the policy effectiveness and financial viability of a Vacant Home Tax
- Deferring consideration of a potential Vacant Home Tax until 2024 could ensure a program design adheres to the forthcoming Provincial policy framework, reflects opportunities to collaborate with other municipalities and addresses the impact of current economic and legislative conditions

3. Background

Vacant Home Tax is a levy on vacant eligible residences in addition to regular property taxes

The Vacant Home Tax is a tax on the Current Value Assessment (CVA) of non-primary residential properties that are reported or deemed to be vacant. The policy goal of the tax is to discourage owners from leaving their properties vacant and therefore increase the housing supply as this stock is returned to the rental or resale markets.

Vancouver implemented an Empty Homes Tax in 2017 and the Province of British Columbia implemented a Speculation and Vacancy Tax in 2018

In 2017, the City of Vancouver became the first Canadian municipality to implement a tax on vacant homes (called the Empty Homes Tax). The initial tax rate was one per cent, gradually increasing to five per cent for 2023. Since implementation, the number of vacant homes in Vancouver has fallen by 36 per cent. However, some of this decrease may be due to the Speculation and Vacancy Tax introduced by the Province of British Columbia (B.C.) in 2018.

B.C. Speculation and Vacancy Tax is a separate tax on the CVA of vacant properties in certain areas of the province, including the City of Vancouver. In addition to targeting vacant homes, the Speculation and Vacant Tax also considers the residency of property owners and where income is earned. The Speculation and Vacancy Tax rate was introduced at a rate of 0.5 per cent and was increased to 2 per cent for foreign nationals starting in 2019.

While some property owners may be required to pay one tax but not the other, others are required to pay both. Owners of properties subject to both taxes would have paid up to 5 per cent of the property's assessed value in 2021 and 2022, increasing to 7 per cent in 2023.

While all designated Ontario municipalities could have levied a Vacant Home Tax since 2017, uptake has been limited

Through *Bill 127, Stronger, Healthier Ontario Act (Budget Measures), 2017*, the Province amended the *Municipal Act, 2001* (the Act) by adding a new Part IX.1, which provides that designated municipalities may, by bylaw, impose a tax on vacant residential units in certain circumstances. Table 1 below illustrates the status of similar Vacant Home Taxes implemented or under consideration in other Ontario municipalities.

Table 1
Interjurisdictional Scan

Municipality	Initial Tax Rate*	First Reference Year (calendar)	Status
City of Toronto	1	2022	<ul style="list-style-type: none"> Declaration period passed and assessment notices sent
City of Ottawa	1	2022	<ul style="list-style-type: none"> Declaration period passed and payments due in June
City of Hamilton	1	2023	<ul style="list-style-type: none"> Implementation deferred from 2022 to 2023 reference year due to timing of Provincial designation Program design approved by Council in January 2023
Region of Peel**	1	2024	<ul style="list-style-type: none"> Developing proposed program design
Region of Halton**	1	2024	<ul style="list-style-type: none"> Developing proposed framework
City of Windsor	N/A	N/A	<ul style="list-style-type: none"> Conducting public consultations
City of Niagara Falls	N/A	N/A	<ul style="list-style-type: none"> Declined to implement a tax due to local municipal concerns and lack of data
City of Kitchener	N/A	N/A	<ul style="list-style-type: none"> Declined to implement a tax due to financial viability
City of London	N/A	N/A	<ul style="list-style-type: none"> Declined to implement a tax due to financial viability and lack of data Continuing to monitor experience at other Ontario municipalities

*Expressed as a per cent of Current Value Assessment i.e., the assessment value of the property for taxation purposes as determined by the Municipal Property Assessment Corporation

**Initial tax rates and reference years are proposed and subject to Council approval

Consideration of a potential Vacant Home Tax for York Region began in 2021

In October 2021, Council received its first report on a potential Vacant Home Tax. This report discussed the rapid rise in housing costs relative to the rise in family income and the status of other municipalities considering a tax on vacant homes. As a result, staff were directed to develop a feasibility study and public benefits review of a implementing a Vacant Home Tax in York Region.

Between June and September 2022, staff along with consultants, KPMG LLP (KPMG) and Creative PROCESS (PROCESS), undertook a multi-platform communications and outreach campaign. Staff met with stakeholder groups and launched a public survey with over 2,750 responses. Over 80 per cent of respondents to the public survey indicated support for a potential tax.

In September 2022, Council received a report including an updated review of housing market conditions, potential revenues and costs estimated by KPMG, and a summary of the feedback from stakeholder consultations and public outreach campaign. Council directed staff to continue its analysis and report back during the first quarter of 2023 with a proposed program design and a draft bylaw.

A second round of consultations helped to inform the preliminary program design and administrative approach

In the fall of 2022, staff conducted a second phase of stakeholder consultations on a potential Vacant Homes Tax, as shown in Table 2.

**Table 2
Program Design Consultations and Outreach**

Information/Engagement Initiative	Detail(s)
Virtual Town Hall	<ul style="list-style-type: none"> • Oct. 26, 2022
Local municipalities	<ul style="list-style-type: none"> • Oct. 21, 2022 meeting of the York Region Local Municipal Housing Working Group • Oct. 25, 2022 meeting with Area Treasurers and local municipal tax staff • Nov. 25, 2022 follow-up meeting with local municipal tax staff • Multiple one-on-one meetings with local municipal tax staff through Dec. 2022
Building Industry and Land Development Association – York Chapter (“BILD”)	<ul style="list-style-type: none"> • Oct. 20, 2022 meeting with BILD • October BILD newsletter • Mar. 23, 2023 meeting with BILD executive

Information/Engagement Initiative	Detail(s)
Public Outreach	<ul style="list-style-type: none"> Targeted email blasts to over 100 organizations Social media, print media and York Region Matters content Maintenance of public email account for inquiries and feedback
Comparator Municipalities	<ul style="list-style-type: none"> Multiple meetings through Jan. 2023 with staff from Toronto, Ottawa, Vancouver, Peel, Halton and Hamilton

4. Analysis

A draft program design has been developed which reflects stakeholder feedback and aligns with other jurisdictions

Draft elements of the program design are summarized in Table 3, including the identification of taxable properties, tax rate and exemptions were developed jointly with KMPG based on stakeholder feedback.

**Table 3
Draft Program Parameters**

Program Parameter	Recommendation
Eligible properties	<ul style="list-style-type: none"> Residential units suitable for year-round occupancy
Duration of vacancy	<ul style="list-style-type: none"> 6 months within a calendar year
Tax rate	<ul style="list-style-type: none"> 1 per cent of the assessed value
Exemptions	<ul style="list-style-type: none"> Restrictions or prohibitions on renting the property Owner residing in healthcare facility Change of ownership Death of registered owner Court order prohibiting sale, occupancy, or rental Property undergoing redevelopment or major renovation Extenuating circumstances (pandemic, natural disasters, etc.) which prevent occupancy
Declaration method	<ul style="list-style-type: none"> An online portal with an option to declare by mail

KPMG has recommended a hybrid administrative model where the Region would share responsibilities with local municipalities

KPMG has recommended a hybrid model for administering a Vacant Homes Tax involving the Region and its local municipalities. Under this approach, the Region would be responsible for collecting declarations, conducting audits and managing appeals, promoting cost efficiency, and equity when determining vacancy status for homes. Local municipalities would leverage their administrative capacity for the billing and collection of the tax.

**Table 4
Overview of Proposed Hybrid Administration Model**

York Region	Local Municipalities
<ul style="list-style-type: none"> Project management and coordination with local municipalities 	<ul style="list-style-type: none"> Creating and overseeing processes for billing, collection, and tax adjustments
<ul style="list-style-type: none"> Develop a communications and public outreach campaign to inform property owners about the tax and mandatory declarations Respond to customer inquiries and comments 	<ul style="list-style-type: none"> Communications related to administering the tax (e.g., mail inserts in billing letters) Respond to customer inquiries and comments
<ul style="list-style-type: none"> Provide an online platform for property owners to declare vacancy status, submit documents, and file appeals Following declarations, provide local municipalities with a list of taxable properties 	<ul style="list-style-type: none"> Amend tax billing and collections software to accommodate a Vacant Home Tax
<ul style="list-style-type: none"> Developing and implementing an audit strategy, including compliance functions, and managing appeals 	<ul style="list-style-type: none"> Administer tax adjustments based on appeals as needed
<ul style="list-style-type: none"> Report to Council on the performance of the tax, making recommendations to program changes as needed, and preparing annual bylaws 	<ul style="list-style-type: none"> Provide data to support annual reporting as needed

KPMG estimates that a Vacant Home Tax could cost \$5.2 million to implement and \$3.6 million annually to operate

KPMG refined cost forecasts initially reported in September 2022 based on the proposed administration approach and stakeholder input. Updated implementation expenses are expected to total \$5.2 million over 2 years, compared to \$6.5 million initially, primarily reflecting \$4.2 million in Information Technology (IT) expenses to develop an online portal for

homeowner declarations and local billing system modifications. After implementation, annual operating expenses are expected to be \$3.6 million, including the cost of new staff to manage compliance and audits, IT systems maintenance, and communications. Local municipal costs of approximately \$0.6 million for implementation and \$1.6 million for ongoing operations (both of which would be reimbursed by the Region) are included in the estimates above.

KPMG’s estimates were based on the costs incurred by the City of Vancouver and initial projections for the City of Toronto and may not reflect requirements to administer the tax in a two-tier system. Other Ontario upper-tier municipalities, such as the Regions of Peel and Halton are in the process of designing their respective Vacant Home Tax programs. Any best practices identified through ongoing information-sharing and collaboration with other upper-tier municipalities would be reflected in updates to the draft program design.

Coordinating implementation and processing with other municipalities could result in operating savings

In addition to sharing best practices with other upper-tier municipalities, staff are exploring opportunities to streamline administration through potential joint processing with other municipalities. This analysis could result in opportunities to reduce costs.

A one per cent tax on vacant homes could generate net proceeds of between \$6 and \$7 million annually

Similar to figures reported in September 2022, KPMG estimates revenues from the tax could be \$13.6 million in the first year, declining thereafter. Table 5 shows that revenues net of administrative expenses could be between approximately \$6 and \$7 million per year over the first 4 years following the approval of the tax.

**Table 5
KPMG Estimate of Net Proceeds**

(\$ millions)	Year 0	Year 1	Year 2	Year 3	Year 4	Total
Revenues at 1%		13.6	12.2	10.9	9.7	46.4
Implementation	(0.2)	(3.7)	(1.2)			(5.2)
Operations		(3.6)	(3.8)	(3.8)	(3.9)	(15.1)
TOTAL	(0.2)	6.3	7.2	7.1	5.8	26.2

Note: Figures may not sum due to rounding. Revenues exclude potential penalties for non-compliance

Net proceeds could be invested in the Community Housing Capital Plan

Following Council’s direction that any net proceeds from the Vacant Home Tax be directed to affordable housing initiatives, staff reviewed potential investment options against the goals and objectives identified in *Housing Solutions: A place for everyone*, [York Region’s 10-year Housing and Homelessness Plan](#). The plan includes goals to increase the supply of

affordable housing in part by building new community housing, helping people find and keep housing, and strengthening the housing and homelessness system.

Investing in the community housing capital plan could accommodate the uncertain and potentially fluctuating nature of revenues from a Vacant Home Tax. Staff also considered options for investing in operating programs; however, program investments typically require stable, predictable and long-term funding to provide certainty to households receiving assistance. Directing net proceeds to the capital plan could support the Region in meeting its Provincial mandates and increase the supply of community housing, a key priority identified by Council. The capital plan currently has a funding gap estimated at over \$420 million over ten years.

Recommendations for the use of net Vacant Home Tax revenues could be updated as new Regional plans and initiatives are developed. For example, once finalized, the Affordable Private Market Housing Implementation Plan (AHIP) and Community Housing Development Master Plan could provide additional investment options for Council's consideration.

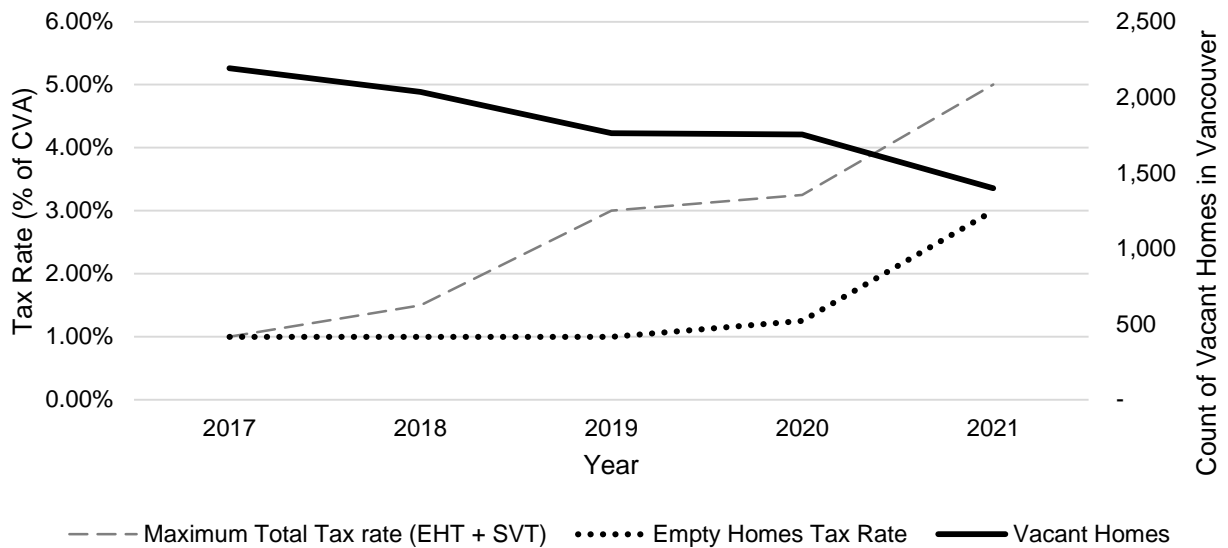
KPMG estimates of potential revenues do not reflect the changes in legislation and economic conditions that have occurred since 2021

Net proceeds are based on KPMG's estimate that 1,605 homes in York Region could potentially be subject to a Vacant Home Tax. These estimates were based on 2021 Census data and the number of taxable homes in Vancouver in 2017. While the data used is the most recent available, it does not reflect the current regulatory and economic environment in Ontario.

In September 2022, the Federal Government implemented a one per cent Vacant and Underused Housing Tax which was made retroactive to the beginning of 2022. This tax applies to residential properties owned by non-resident, non-Canadians, which are vacant for 6 months within a calendar year.

If the Federal tax has reduced the number vacant homes in York Region compared to estimates suggested by 2021 Census data and Vancouver's experience in 2017, forecasted Regional Vacant Home Tax revenues could be overstated. Analysis of data from Vancouver illustrates that the number of vacant homes declined as the total tax rate on vacant homes increased. This includes the Empty Home Tax (EHT) and the provincial Speculation and Vacancy Tax (SVT), even though the eligibility and exemptions differ between the two taxes.

Figure 1
Sensitivity of Vacant Homes to Tax Rates in Vancouver



In addition, in January 2023, the Federal Government, through the *Prohibition on the Purchase of Residential Property by Non-Canadians Act*, enacted a two-year ban on home purchases by non-resident non-Canadians.

Additional data is required to refine the estimated number of vacant homes in York Region since the introduction of Federal Vacant and Underused Housing Tax and the ban on foreign buyers. This includes Toronto and Ottawa’s reported vacancy data in the first year following implementation and updated York Region housing market information. Reviewing the experience of other Ontario municipalities that have implemented the tax could help refine estimates of the number of vacant homes, expected tax revenues, and the analysis of the tax’s financial viability.

Other economic factors, such as rising interest rates, could further impact the number of vacant homes in York Region

Between January 2022 and January 2023, the Bank of Canada gradually increased the target overnight interest rate from 0.25 per cent to 4.50 per cent. The impact of higher interest rates on the number of vacant homes in the Region remains unclear.

For example, higher carrying costs for mortgaged properties could encourage some property owners to release them to the rental market, potentially reducing the number of homes left vacant. Higher interest rates could also result in lower house prices as the borrowing cost of purchasing a home increase. These lower house prices could discourage other owners from releasing otherwise vacant homes to the resale market, potentially leading to higher numbers of vacant homes. Although overall housing prices are still 35 per cent above pre-pandemic levels compared to the peak in February 2022, York Region’s January 2023 home resale prices were down by 19 per cent. Industry experts agree prices might still decrease in the coming months.

Until the full effects of the interest rate adjustments are known, the effectiveness of a Vacant Home Tax and potential revenues are uncertain.

Further refinements to the program design may help address remaining stakeholder concerns

In addition to uncertainty around financial estimates, the program design could further be refined based on stakeholder feedback. While stakeholders continued to be broadly supportive of the tax through the second round of consultations, some concerns remain. Table 6 summarizes these concerns and how deferring the consideration of a proposed Vacant Homes Tax presents potential opportunities to address them.

**Table 6
Stakeholder Concerns and Opportunities**

Concerns	Opportunities
Application of exemption for new builds prior to occupancy was unclear – issue with City of Toronto bylaw	<ul style="list-style-type: none"> • Additional analysis could help determine the extent to which newly constructed housing units could be exempt
Smaller local municipalities may need additional resources to implement and operate a Vacant Home Tax program	<ul style="list-style-type: none"> • Exploring opportunities to collaborate with other municipalities to streamline administration, such as through potential joint processing, which could help alleviate this burden
Revenue risks may result in tax levy pressures	<ul style="list-style-type: none"> • Revenue and costing estimates may be improved by reviewing the 2023 experience implementing the Vacant Home Tax in other Ontario municipalities, including Ottawa and Toronto
The cost to administer the Vacant Home Tax could exceed the benefit	<ul style="list-style-type: none"> • The main objective of the tax is to encourage vacant homes to be released back into the housing market; any net revenues generated are a secondary benefit and would be directed to support affordable housing initiatives • Refined cost and revenue estimates could better determine financial viability. Annual performance reviews could help determine whether program changes can be recommended

The Province’s Vacant Home Tax Policy Framework has not been finalized

Following the development of the preliminary program design, in December 2022, the Ministry of Finance formed the Provincial Vacant Home Tax Working Group. The Working

Group includes members from upper, single and lower tier municipalities throughout the GTHA, Waterloo, Niagara, Ottawa, London, and Windsor. The purpose of the Working Group is to identify best practices and inform a Provincial Policy Framework for the Vacant Home Tax.

The Working Group discussed elements of the Policy Framework proposed by the Ministry of Finance on December 20, 2022, February 3, 2023 and March 27, 2023. Once finalized, municipal requests for designation to levy a Vacant Home Tax would be expected to comply with the Policy Framework. While the preliminary program design tentatively aligns with discussions to date, deferring a final decision on implementation until 2024 could help ensure that a proposed program design adheres to Provincial guidelines.

5. Financial

Financial projections will be updated to reflect recent developments

KPMG estimated net proceeds could be up to around \$7 million per year. However, those estimates do not reflect potential impacts to revenues resulting from recent legislative and economic conditions or opportunities to streamline administration. Staff could revisit the vacancy and revenue estimates to determine if revisions are required. Additionally, staff would evaluate cost impacts of utilizing internal resources, collaborating with other municipalities, and the specific considerations of implementing a Vacant Home Tax in a two-tier environment. This analysis would inform updated financial projections as part of a future Council report.

6. Local Impact

The proposed Vacant Home Tax may assist local municipalities in advancing housing objectives

The implementation of a Vacant Home Tax could benefit the local municipalities by helping to increase the supply of affordable housing. Revenues from the program would first be directed to Regional and local municipal costs to administer the program to minimize potential budget pressures and impact to property taxpayers. The investment of net revenues in Region-wide affordable housing initiatives could also support local municipalities' housing plan objectives.

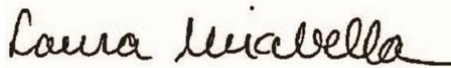
7. Conclusion

In response to the housing affordability crisis in York Region, staff has been evaluating the use of potential Vacant Home Tax, which has gained broad support as a policy tool to help return vacant or underused housing back to the market. While stakeholders supported the proposed program design and administration approach: the changing regulatory and economic conditions could impact the financial viability of the program. In addition, should

the program design not anticipate all elements of the forthcoming Provincial Policy Framework, this could cause delays in achieving designation.

Deferring the potential implementation of the tax could help staff to better determine its financial viability and policy effectiveness. It would also allow for greater collaboration and information sharing with other Ontario municipalities, including options to potentially streamline administration and introduce efficiencies. The significant emergent changes in the regulatory and economic environment require additional due diligence to ensure the success of the program.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.



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Attachment 1 – KPMG report: A review of considerations for a Vacant Home Tax in York Region.