

Intelligence MEMOS



From: Rhys Kesselman
To: Premiers of British Columbia and Ontario
Date: September 11, 2017
Re: **BROADER POLICIES NEEDED TO RESTORE HOUSING AFFORDABILITY**

The major metropolitan areas of your province are suffering extreme unaffordability of housing. The policy measures taken to date have slowed rapid price appreciation—but prices remain [far out of line](#) with median family incomes. A sustained and effective strategy would recognize that speculative motives are pervasive among home purchasers.

Measures such as the extra transfer tax on foreign buyers are vulnerable to avoidance. But more fundamentally these policies ignore that any purchaser—foreign or domestic—would need to anticipate further price escalation to justify buying now. So every buyer and seller has become, to a significant degree, a speculator.

Beyond foreigners seeking a safe haven for their wealth, who are these “speculators”? Local residents buying second properties; flippers who live in a home briefly to claim a tax exemption on the gain; homeowners delaying a sale in a rising market; and those accelerating their purchase for “fear of missing out.”

Canada’s income tax exempts any gains realized from the sale of homes that were the owner’s principal residence. Some of those purchasing for other purposes will be caught by existing income tax provisions; but many slip through the cracks, making tighter monitoring and enforcement essential.

Yet, the absence of capital gains tax on principal residences both facilitates income tax evasion by some sellers and spurs pressures for price inflation by buyers seeking a home. Housing comes to be viewed in terms of tax-free financial gains as much as the amenity value of accommodation.

The lack of capital gains tax on principal residences thus promotes ongoing inflation in already overheated housing markets. It is also an issue affecting both the efficiency and equity of tax policy.

Tax exemption on gains of owner-occupied housing diverts savings from capital markets where the funds would augment business investment, productivity, and wages. Too much of the economy becomes concentrated in the housing sector. Tax exemption also treats unfairly those who put their savings into business or financial markets (where capital gains are taxed) versus those who put their savings into tax-favoured housing.

Like US taxation of capital gains on owner-occupied homes, your province’s tax could provide an exempt amount. This would ease matters for growing families in moving to larger homes and insulate homeowners in regions not afflicted by high inflation.

A provincial tax could apply a high rate on gains for shorter holdings with rates declining for longer holdings. This rate structure would dampen the speculative motive for all home purchasers. Tax could be withheld directly at the point of property transfer, and it could cover all home sales with a credit for payments on sales subject to income tax.

No doubt the design of this tax would need to be carefully considered. But runaway housing prices are depriving a younger generation of the opportunity to become homeowners while enriching other groups. They are also transforming your cities and shrinking diversity.

If your government is serious about restoring housing affordability—not just dampening further price escalation—the time for half-measures is past.

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