

## BC Residential Construction Industry Input on Housing Plan in Budget, 2018

Submitted by the Canadian Home Builders' Association of BC  
March 19, 2018

The Canadian Home Builders' Association of BC (CHBA BC) appreciates the opportunity to provide potential solutions to industry concerns related to B.C. Budget 2018 on behalf of its 2,000-member companies from across the province. The residential construction industry creates over 158,000 on and off-site jobs in new construction, renovations, and repairs in British Columbia.

CHBA BC understands the government's interest in making housing more affordable for British Columbians and hopes that this submission will help achieve that goal by mitigating unintended consequences of the new tax-related rules being developed.

### IMPACT OF UNCERTAINTY

The uncertainty of a potential speculation tax is concerning for the residential construction industry. It has stalled construction and investment decisions while residents of B.C. and those of other provinces wait for the details.

CHBA BC members have already shared situations where homeowners are waiting on the sidelines or have backed away from plans for new homes. This has resulted in an immediate loss of jobs and opportunities for the residential construction industry. Some 22,000 B.C. construction and specialty trades companies contribute over \$9.2 billion in wages annually to provincial and local economies, with an estimated tax revenue of \$3.5 to 4.0 billion per year.

### SPECULATION TAX CONCERNS

Of greatest concern to members is the uncertainty surrounding the proposed speculation tax in two key areas: additional cost impacts on land used for development and details for part-time residents.

#### *1. Impacts on development land*

Payment of personal income tax has been determined to be the main exemption possibility for the speculation tax. However, many home building and development businesses purchase land in the name of the company, not the individual owner. These companies pay annual corporate or small business taxes, just like individual workers, and should be able to be able to purchase land for development in advance.

If no exemptions are granted for corporate income tax, there are wider implications for the price of housing in B.C. These would surely be unintended by the government and could run counter to the goal of mitigating house prices and improving affordability.

**Example:** Without an exemption, the speculation tax could apply annually to land parcels for every year it takes to receive permits and be developed. This direct tax increase would have to be factored into the sale prices. Initial estimates suggest this tax alone could add several thousand dollars to the price of new homes if businesses are not clearly exempt from the tax.

**Proposed Solution:** Allow businesses that pay tax in B.C. (or preferably Canada) to be exempt, in addition to the clear exemptions outlined for personal income tax. In addition, a clear exemption is desired rather than a credit. There are concerns that most households and businesses would not have the means to pay the speculation tax upfront and wait for the credit.

#### *2. Part-time residents and owners of vacation properties*

B.C. has multiple tourism areas across the province, which attract seasonal visitors. Many families have invested in B.C. in previous decades, and not necessarily because of the housing market. There are also many examples of employees who work in multiple provinces or areas, based on Canada's employment mobility, and are

contributing to the overall economy – an employee in Saskatoon with a cabin on Saltspring Island, a tech business with offices in Vancouver and Calgary, a small family that lives in Richmond during the week but Chilliwack on the weekends, a family that has temporarily moved to Toronto but wants to retain their family home where they have roots. These are not “speculators” and would otherwise be penalized if the rules for secondary homes are not clear and defined.

These seasonal properties do not represent a significant percentage of the housing stock nor of tax revenue. For example, in the City of West Kelowna, the [municipality has identified](#) that the tax may raise \$10 million in revenue, but the city will otherwise lose millions in lost development funds, a loss of tourism revenue to local businesses, and tourism jobs. Residents can't stay in areas they are located in or cannot access housing – a goal of the tax - if jobs that support the local economy are lost at the same time.

**Example:** Building and providing site services to a typical new home employs over 25 different types of companies and specialty tradespeople, on average. It is not just the principal home building company that would be affected, but all of the sub-trades and suppliers they contract.

Site management and building trades in B.C. represent approximately 40,000 jobs across the province (**See Appendix A**). In Nanaimo and Parksville alone, there are over 1,150 direct on-site and full-time jobs as skilled trades and site supervisors. This number could be even higher, with jobs outside of the Census-defined areas or tradespeople travelling from other areas.

**Economic Impact:** For home owners (and potential home buyers) who are fully subject to the 2% surcharge, the income requirements for a median-priced home are increased by about 35% in all speculation-tax regions. For example, an additional \$29,611 in income would be required to afford the monthly cost of the speculation tax for a medium-priced home in Kelowna. Additional modeling and analysis of the wider speculation tax-related policy, regulatory and tax impacts is available.

**Proposed Solution:** Exempt all homeowners who pay income tax in Canada, rather than just B.C. This would still allow the government to better apply the tax to investors that pay very little to no income tax in B.C. or across Canada, which is the intent of the proposal. It would also respect Canada's employment and interprovincial mobility, and Canadians from other provinces who have invested in B.C. with the intention to live, work, or play here.

## OTHER BUDGET RECOMMENDATIONS

### 1. *Grandfathering past contracts*

In the home building industry, contracts are signed months or years in advance of project completion. When the foreign buyers' tax first came out in July 2016 there were no opportunities for grandfathering. Many home buyers were unable to complete their transactions, and many unable to cover the funds were local employees in Vancouver – a stark difference from the intended audience.

The foreign buyers' tax, with its expanded area, can only receive an exemption until May 2018. This is concerning for particularly the new areas that will pay the tax. Requiring a buyer to come up with the equivalent of a second down payment of 20% in three months is not sufficient.

**Proposed Solution:** CHBA BC recommends the provincial government provide exemptions for the foreign buyers' tax at least one calendar year from the Budget date to account for projects underway.

There are also many situations where out of province buyers may feel they cannot purchase until speculation details are determined. If this goes to a formal review, it could create months of uncertainty and decimate the local economies in B.C. impacted by the tax.

**Proposed Solution:** CHBA BC recommends a review of exemptions for properties in the speculation tax regions to provide the opportunity for buyers to continue to invest without fear of penalization or uncertainty.

## 2. *MSP Tax*

In the residential construction industry, legitimate businesses are undercut by cash operators, especially in the renovation sector, who are able to provide a perceived better “deal” to the homeowner. This provides no protection for the homeowner nor ensures homeowners are working with businesses that abide by all taxation, employment, and safety rules.

In recent weeks, the MSP tax has been discussed by employers of all-types. However, CHBA BC wishes to bring forward the underground economy perspective. This tax cost will have to be passed on to customers in various formats and continues to affect legitimate businesses’ abilities to compete.

**Solution:** If the MSP tax cannot be amended, CHBA BC requests to have a discussion with government on renovation incentives that dissuade consumers from working with cash operators. A tax credit for renovations is one example that encourages receipts and documentation.

The impact of the MSP tax, like all businesses in B.C., will also add to the cost of new homes. If all of these businesses – trades, manufacturers, suppliers - must raise their prices as a result of the new tax, this will overall add costs to new homes and home buyers and impact affordability.

## 3. *School tax*

The Housing Plan included an additional school tax payment on properties over \$3 million, which includes land parcels. With the annual school tax payment increase, this increase will have to be factored into the sale price of homes based on the expected years between purchase and completion. This too will impact affordability and purchasing power of homeowners for all new supply.

**Proposed Solution:** Exemptions have been already confirmed in the past month for [purpose-built rental units](#), but no such exemptions for units in the development cycle or land parcels. A consideration of how this cost can be mitigated to protect affordability for new home buyers is warranted. CHBA BC is eager to work with the Province to develop a mechanism that would provide assurances that these properties are not being held for speculation.

## **RESIDENTIAL CONSTRUCTION INDUSTRY FEEDBACK**

Below is a small sample of the correspondence CHBA BC has received. Additional feedback is available.

- These taxes will have a huge and specific impact on the Kelowna-Central Okanagan simply because we are a mecca for seasonal residences and retirement. Literally several hundred homes, each year, of all types will either not be sold or not built should this tax be enforced as currently proposed. We expect the negative impacts to be of a scale this valley experienced in the generalized economic crash of 2009/10.
- Since the announcement we have had many internal discussions on the subject, and the severe impact that this tax may have on our business personally, in the Fraser Valley, and on the housing economy as a whole. These are not foreigners, but B.C. residents that have fallen victim to a tax that in some case exceeds their annual income.
- Using a new project example, the taxes will increase the building cost in Vancouver by \$20,000 on a per lot basis if it is applied to vacant development land while it waits for approvals.
- The most recent proposal of a speculation tax is creating a fury of confusion and concern for our local economy and businesses. Although the original intent was to control costs and create affordability of housing in select areas, it alternatively creates a very expensive and devastating blow to not just the home owners who want to eventually call B.C. their home but to the very builders and developers in Kelowna who employ thousands of locals that can bring you the affordable homes.

- The Gulf Islands and Qualicum Beach area are both good examples where owners may choose to leave homes vacant in the winter season because of low demand. These communities are not facing the same housing crisis and imposing a vacancy tax would have a negative impact on these communities and the tourists they depend on.
- The impact of their decision is far reaching in our community. We (the Builder) are a 30-year resident of Kelowna, support several local charities, donated thousands to the Okanagan College trades program, work closely with the women in trades program, and add millions in economic activity to the local economy. We work only with local suppliers and contractors. Our 6 to 7 projects per year take approximately 140 workers directly and 500 workers indirectly to complete. On average, we provide work for approximately 3,000 workers per year. Many of these workers are middle-income earners and rely on employment from our projects to pay their rent and purchase their homes. We recognize the NDP government's positive motive to reduce housing costs, however we encourage the government to review the economic impact it has on the very people they are trying to help.
- We do not have enough supply in the market to meet the demand for new housing. We also have no clear guidance into whether property being held for re-development is subject to the 2% speculation tax. This is a direct increase into our cost base of land in Metro Vancouver that is being held for new housing development. It is counter intuitive towards making housing more affordable.
- We are discouraged to hear that business will be left to cover the cost for the government's phase-out of MSP premiums. Not only does this add excess pressure to our current budget, but it hinders our ability to expand and move forward in the manner we had planned in the Fraser Valley. There is no doubt that this new tax on each payroll dollar spent will have a negative impact on our business as we look to grow.
- On March 12, 2018 at 3:44 pm, the Smiths (*name changed for privacy*) called to cancel construction of their new home located in Boucherie road area of West Kelowna. Based on the proposed 2% speculation tax, the Smiths will be forced to pay approximately \$20,000 per year for the next 4 to 5 years until they can leave their jobs and move to the Okanagan. The Smiths simply can't afford \$80,000-\$100,000 in additional taxes – they are not wealthy. The Smiths are forced with no alternative other than cancel their dream of building and living in the Okanagan.

Respectfully submitted,

Neil Moody  
Chief Executive Officer

**Appendix A: Establishments Engaged in Residential Construction and Directly-Related Fields in the Province as a Whole and in Selected Urban Areas, June, 2017**

**Appendix "B": Estimated Economic Impacts of New Residential Construction – Mainly Skilled Trades and Site Supervision, 2016**

**Appendix “A”: Establishments Engaged in Residential Construction and Directly-Related Fields in the Province as a Whole and in Selected Urban Areas, June, 2017**

<b>Type of Establishment:</b>	<b>Kelowna</b>	<b>Victoria</b>	<b>Nanaimo</b>	<b>British Columbia</b>
Residential building construction	310	462	129	5,863
Water and sewer line and related structures construction	11	9	6	162
Power and communication line and related structures construction	4	7	3	112
Land subdivision	58	52	10	691
Highway, street and bridge construction	25	21	7	506
Poured concrete foundation and structure contractors	37	21	10	493
Structural steel and precast concrete contractors	10	3	3	155
Framing contractors	33	21	10	574
Masonry contractors	33	27	4	396
Glass and glazing contractors	7	12	4	196
Roofing contractors	24	43	16	683
Siding contractors	23	14	6	289
Other foundation, structure and building exterior contractors	22	13	9	375
Electrical contractors and other wiring installation contractors	99	147	47	2,214
Plumbing, heating and air-conditioning contractors	134	171	55	2,312
Elevator and escalator installation contractors	3	3	1	24
All other building equipment contractors	23	11	7	271
Drywall and insulation contractors	43	35	12	860
Painting and wall covering contractors	46	106	29	1,038
Flooring contractors	33	30	18	401
Tile and terrazzo contractors	17	10	5	273
Finish carpentry contractors	51	71	16	982
Other building finishing contractors	24	33	12	570
Site preparation contractors	72	69	35	1,333
All other specialty trade contractors	68	71	17	1,182
<b>Total</b>	<b>1,210</b>	<b>1,462</b>	<b>471</b>	<b>21,955</b>

Source: Statistics Canada, CANSIM Table 552-007.

**Appendix “B”: Estimated Economic Impacts of New Residential Construction –  
Mainly Skilled Trades and Site Supervision, 2016**

<b>Geographic Area:</b>	<b>Housing Starts:</b>	<b>Direct Full-Time Equivalent Person-Years (within BC):</b>	<b>Wages Paid to British Columbia Employees (\$ millions):</b>
British Columbia Total	41,843	45,490	\$ 2,722
Abbotsford Census Metropolitan Area	1,136	1,030	\$ 62
Abbotsford City	933	828	\$ 50
Mission District	203	203	\$ 12
Burnaby	4,172	3,611	\$ 216
Campbell River	188	204	\$ 12
Chilliwack Census Agglomeration	769	820	\$ 49
Chilliwack City	654	692	\$ 41
Coquitlam	1,625	1,648	\$ 99
Courtenay Census Agglomeration	377	430	\$ 26
Cranbrook Census Agglomeration	99	118	\$ 7
Fort St. John Census Agglomeration	136	130	\$ 8
Kamloops Census Agglomeration	697	675	\$ 40
Kelowna Census Metropolitan Area	2,196	3,040	\$ 182
Langley	1,383	1,486	\$ 89
Nanaimo Census Agglomeration	878	893	\$ 53
New Westminster	1,235	1,018	\$ 61
Parksville Census Agglomeration	195	257	\$ 15
Penticton Census Agglomeration	435	421	\$ 25
Prince George Census Agglomeration	313	334	\$ 20
Richmond	2,215	2,233	\$ 134
Salmon Arm	145	173	\$ 10
Surrey	3,471	3,803	\$ 228
Vancouver Census Metropolitan Area	27,914	27,192	\$ 1,627
Vernon Census Agglomeration	325	344	\$ 21
Victoria Census Metropolitan Area	2,933	3,133	\$ 187

Source: Calculated from Canada Mortgage and Housing Corporation and Statistics Canada data by Will Dunning Inc. Economic Research. Sample impacted areas shaded in gray.

## **Addendum to BC Residential Construction Industry Input on Housing Plan in Budget, 2018**

April 6, 2018

CHBA BC previously submitted recommendations for the speculation tax on March 19, 2018 covering impacts on development land and part-time residents.

Since that date, new situations that may be affected by the speculation tax have been presented by members. In order to mitigate as many unintended consequences as possible, these situations are presented in hopes that exemptions can also be drafted. CHBA BC appreciates that provincial government is actively taking and responding to industry and public concerns on the tax thus far.

### **1. *Show homes***

Building a show home is an integral part of the development process. Buyers of new homes need the opportunity to view the home in the same fashion that buyers of resale homes are able to - to see details, finishes and layouts firsthand.

However, the show home must be vacant throughout the development process, which can be several years. It is then sold at the end of the project. Should the show home, like land for construction, be subjected to the speculation tax, it will add unnecessary costs for the project that will be borne by the new home buyer.

**Recommendation:** Provide an exemption for show homes until completion. This can easily be measured through mechanisms like mandatory home warranty. A show home is not registered under home warranty until after the transfer takes place to the new home buyer, like all new homes in B.C. This will differentiate show homes from other completed homes in the province.

### **2. *New projects for sale or homes under construction***

Some types of developments involve building homes first before selling rather than a pre-sale approach. Therefore there is a window between when land is first subdivided to when it is sold, which passes the year(s) threshold to pay the speculation tax. Should completed homes ready for sale - which cannot be rented as they're sold as new and aren't a primary residence yet - be subjected to the speculation tax, any potential tax would have to be factored into the selling price.

It is also possible in a new development that there will be unsold units, where buyers are unable to complete their transactions or there is lower than expected interest. It is not possible to rent these units in the interim period and they shouldn't be subjected to the speculation tax as the intent is to sell them.

**Recommendation:** Similar to the above issue, it is possible to exempt homes throughout the construction period to recently completed unsold homes using mandatory provincial warranty. No warranty is granted until the transfer takes place from the developer to the first buyer. For very exceptional cases, such as projects on First Nations land or owner builder projects, other mechanisms like occupancy permits may also demonstrate the end of the construction period.

Should the province require other enforcement measures for these type of exemptions, CHBA BC would be pleased to discuss this in greater detail.

Respectfully submitted,

Neil Moody

CEO, Canadian Home Builders' Association of British Columbia