

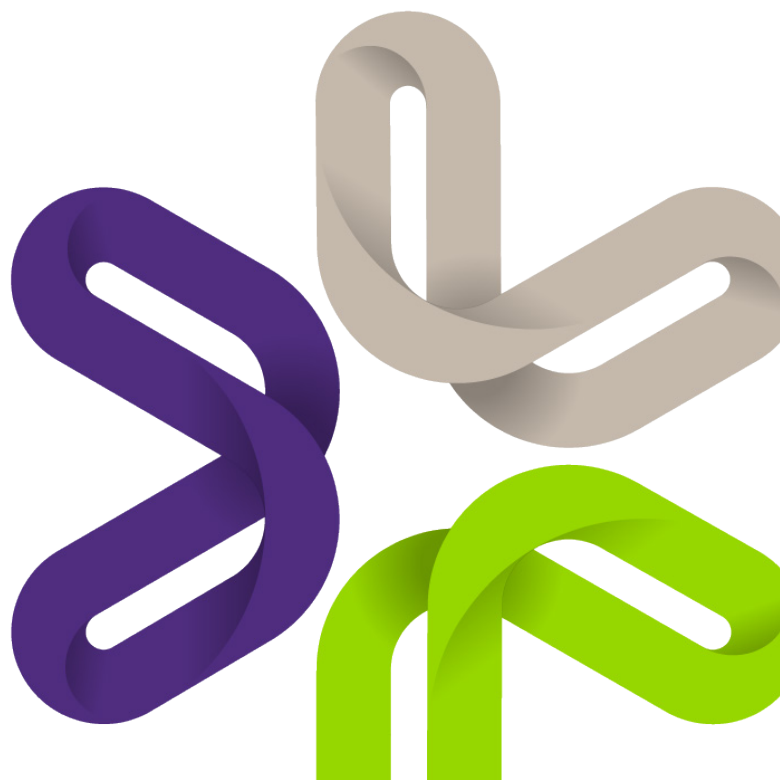


# Are you subject to new BC property legislation?

## BC Speculation and Vacancy Tax update – Important questions and answers

November 2018

The government of British Columbia is moving ahead with plans to establish the Speculation and Vacancy Tax announced earlier in the year as part of its 2018 budget. While some outstanding issues have been clarified by the legislation introduced in October, areas of uncertainty remain. If you are a BC resident, property owner or are involved with the real estate sector, you probably have questions about the tax and how it applies to you. We've assembled answers to some of the most urgent questions below to help you plan ahead.



As we've written previously, the [BC Speculation Tax](#) targets the owners of unoccupied residential properties. According to the information provided by the BC government, the tax is intended to help create more affordable housing by increasing vacancy rates and curbing speculation-driven inflation in the residential real estate markets of the province's largest urban centres. The government expects that by levying additional costs on so-called speculators it can "push them out of the market."

The full impact of such a tax on the real estate market is unknown, though BC residential real estate markets are already slowing, with 2018 sales volume projected to fall 21% from 2017 levels, and benchmark prices for houses and condos in key markets such as the greater Vancouver area [dropping](#) from earlier highs. These changes are occurring even before the new speculation tax measures have been instituted and are being driven by a combination of factors, including: a previously-instituted provincial foreign-buyers tax; more stringent mortgage lending rules; rising interest rates; Vancouver's empty-homes tax; and the prospect of the new speculation and vacancy tax.

## When will the tax take effect?

[Bill 45](#), the Budget Measures Implementation (Speculation and Vacancy Tax) Act is moving through the provincial legislature, and as of this writing it appears likely to become law this year. As written, it will apply to the current tax year, meaning that the tax will be levied on owners who hold title to affected properties on December 31<sup>st</sup> of 2018. In future years, the tax will apply to those who own property in the targeted areas on the last day of each successive taxation year.

## Have there been any changes since the bill was introduced?

Yes, the government agreed to three changes to the original blueprint for the Speculation Tax. These include:

1. **All Canadian citizens and permanent residents living in Canada will be subject to the same tax rate**, while foreign owners and "[satellite families](#)" will pay a substantially higher rate. Previously, the plan had called for one rate for BC residents, a higher rate for Canadians residing in provinces and territories outside of BC, and the highest rate for foreign owners.
2. **Municipalities will have an opportunity to discuss the impact of the tax with the finance minister on an**

**annual basis**. The original legislation did not provide for any municipal input.

3. **The money raised by the tax will be used for affordable housing purposes within the region it was collected**. There was no specific provision under the original plan to portion out the proceeds of the tax according to where the funds were collected.

## Who is impacted, and how much will they pay?

Individuals and businesses that own residential properties within the regions specified by the legislation are required to pay the tax, or prove they qualify for an exemption. Those regions are:

- municipalities within the [Capital Regional District](#)
- municipalities within the [Metro Vancouver Regional District](#), excluding Bowen Island, the Village of Lions Bay and Electoral area A, but including UBC and the University Endowment Lands
- the [City of Abbotsford](#)
- the [District of Mission](#)
- the [City of Chilliwack](#)
- the [City of Kelowna](#) and the [City of West Kelowna](#)
- the [City of Nanaimo](#) and the [District of Lantzville](#)

As noted above, the proposed amendments to the legislation mean that all Canadian citizens and permanent residents will be subject to a single rate, though foreign owners and satellite families will still pay more after 2018. According to the provincial government, a satellite family is "an individual or spousal unit where the majority of their total worldwide income for the year is not reported on a Canadian tax return."

The applicable rates are outlined in the table below.

Owner	2018 Rate	2019+ Rate
BC Resident	0.5%	0.5%
Other Canadian and Permanent Residents	0.5%	0.5%
Foreign and Satellite Families	0.5%	2.0%

## Are there exemptions or credits that might provide relief?

Yes, there are a number of [exemptions](#) and [credits](#), though many come with additional responsibilities and/or limits, and some may be subject to further interpretation or clarification. The primary exemptions and credits are:

Type	Details
<b>Principle Residence Exemption</b>	There will be a general exemption for an owner's principal residence – where they reside for a longer period in a calendar year than any other place. It should be noted that these principal residence rules are <u>not</u> the same as those for income tax purposes.
<b>Rented Property Exemption</b>	Exemptions are available for homes occupied by long-term tenants. <ul style="list-style-type: none"> <li>- For 2018, tenants need to occupy the residence for three months in increments of one month or longer in order for the owner to qualify.</li> <li>- Starting in 2019, the home must be occupied for at least six months of the year in increments of one month or longer to qualify for an exemption.</li> </ul>
<b>Construction &amp; Development Exemption</b>	Property that is under construction or substantial renovation is exempt if "reasonable steps are being taken without undue delay to develop or renovate the property." These exemptions also cover: <ul style="list-style-type: none"> <li>- Phased developments that occur over time;</li> <li>- Vacant new inventory (unsold units in a building); and</li> <li>- Heritage properties where conservation work is taking place.</li> </ul>
<b>BC Resident Owner Credit</b>	Residents of BC are eligible for a \$2,000 tax credit that effectively exempts a taxable home assessed at up to \$400,000 or provides reduction in tax payable on a home assessed above \$400,000.
<b>Other Canadians Credit</b>	Non-BC resident Canadians will be eligible for a tax credit based on the amount of income that they claim in BC.
<b>Foreign and Satellite Family Credit</b>	Foreign owners and satellite families will be able to claim a tax credit equal to 20% of their B.C. income to reduce the 2% speculation and vacancy tax owing.

The list above is not exhaustive, there are a number of additional conditions under which property owners may be able to claim an exemption; the full list is available [here](#). You should also keep in mind that many exemptions and credits will come with caps and limitations; for instance, the BC resident owner tax credit is restricted to \$2,000 per owner and \$2,000 per property and is not transferable to a spouse. Therefore, it is important to understand how the rules may apply to your individual circumstances to be able to determine if and when you are eligible for one of these forms of relief.

## What if I own a property in Vancouver, which already has an empty-homes tax?

The provincial speculation tax legislation does not currently pre-empt or allow a credit for Vancouver's [empty-homes tax](#), so owners with vacant properties in that municipality may end up paying both levies. Likewise, the City of Vancouver does not plan to eliminate or modify its own tax once the Speculation Tax becomes law.

## If I own a property in an affected area, what can I expect the process to look like?

All property owners in designated areas will be sent a [declaration](#) form that must be completed and returned in order to claim any exemptions. Owners should complete these forms even if they don't believe they qualify for an exemption. Declarations can be mailed in, or completed over the phone, and the province plans to have an online declaration option available by January 2019. Next, assessments will be issued, and payment – if required – will be due by July 2<sup>nd</sup>.

**For the 2018 tax year, the full timeline will be:**

<b>February 2019</b>	<b>March 31, 2019</b>	<b>April 2019</b>	<b>July 2, 2019</b>
Declaration forms sent	Declaration responses due	Assessments sent	Payment due

## What if I want to buy or sell a property that may be subject to the tax?

Every person's financial picture is unique, and property ownership is just one part of the whole. Some may view the looming new tax – and the effect it may have on the real estate market – as a reason to sell, though others may consider the same factors and see a buying opportunity. As you contemplate whether or not to buy or sell, we recommend that you weigh all of the potential benefits and liabilities and their impact on your long-term financial goals.

## Where can I find additional help?

Even as the speculation tax legislation moves forward, there are many questions and unknowns creating uncertainty for current and prospective property owners in BC. Your [Grant Thornton advisor](#) is following developments in this area closely and can help you understand these factors, quantify what they may mean from your individual financial perspective, and formulate an effective strategy.

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