

# Information Report

---



Service Area	Corporate Services
Date	Friday, September 22, 2023
Subject	<b>Vacant Home Tax</b>

---

## Executive Summary

### Purpose of Report

In 2017, Ontario's Fair Housing Plan was introduced. One of the options included in this plan allowed Ontario municipalities to implement a Vacant Home Tax (VHT). The intent of the VHT was to encourage property owners to rent or sell residential units otherwise vacant. It was not until 2023 that the two largest Ontario municipalities implemented a VHT. This report will discuss and will provide Council with information related to the optional VHT.

### Key Findings

A VHT imposes a tax on properties that remain vacant for a certain period, typically for greater than half a year. The objective is to incentivize property owners to rent or sell vacant residential units thus increasing the housing supply.

With rising concerns about housing affordability and accessibility for both residents and students, the issue of housing supply in Guelph has become increasingly pressing. While a VHT may be an instrument in increasing housing supply, its effectiveness depends on several factors, including local housing market dynamics, enforcement, and public policy considerations. If implemented, a VHT would be only a small part of an overall strategic housing policy.

While some think of a VHT as a revenue generation tool, its main purpose is to change behaviour and in doing so, entice property owners to not have a vacant residential unit thereby increasing the housing supply.

The attached report prepared by The Municipal Tax Advisory Group (MTAG) Paralegal Professional Corporation (PPC) outlines a number of considerations relating to implementing a VHT.

- a. Reputational and Equity Implications
- b. Required Cost versus Anticipated Revenues
- c. Legacy Costs if a VHT is implemented and then discontinued

Considering the experience of other municipalities and overall knowledge of the size of and rental demand as a university city, it is suggested that implementing a VHT in Guelph is unlikely to generate the necessary revenue to cover the significant administrative cost to implement. Neither would a VHT significantly fulfill policy and economic goals.

Behaviour changes of property owners may also come with less expensive options such as increased outreach and communication related to possibilities for renting and selling vacant units.

## **Strategic Plan Alignment**

Linking to Future Guelph: Strategic plan 2024-2027 through the strategic theme of City Building and the objective of Improving Housing Supply encouraging property owners of vacant homes to either sell or rent them, will therefore incrementally increasing the housing supply.

## **Financial Implications**

This report has no direct financial implications.

---

## **Report**

### **Details**

Abridged from, Attachment-1: An Analysis: Implementing a Tax on Vacant Residential Units in The City of Guelph.

### **Background**

Ontario's Fair Housing Plan was introduced on April 20, 2017. One measure included in this plan was legislation to empower municipalities to implement a VHT within their jurisdiction. The stated intent of the VHT is to encourage property owners to sell unoccupied units or rent them out to minimize the possibility of residential units being left vacant and off the market by speculators.

### **Discussion**

The legislation allowing municipalities to implement a VHT is permissive. There are few set rules, and municipalities have a large degree of latitude in determining the criteria their Council will wish to put in place. This is both a benefit, and a hindrance, in that there is no template that municipalities and their Councils can use to determine whether a VHT makes sense in their jurisdiction. The only constants are that a VHT should "encourage" owners who are not living in properties they own to rent them out, and secondly, that whatever plan, it must be approved by the Minister of Finance.

So, would it make sense to implement a VHT in the City of Guelph? To answer this question, it is necessary to look closer at the specifics of what such an implementation may look like:

#### **a. Reputational and Equity Implications**

The City has garnered a reputation for equity in the formation of its tax policies. Its tax policies are all based on the principle that similar property types in the same property class should not be subjected to different rates of tax. It has removed the use of sub-classes and sought to keep its tax structure as simple as possible. The result has been reduced questioning and increased transparency and understanding of the City's tax policies and practices for all its residents and taxpayers.

Implementing a VHT would be completely contrary to this approach. It would mean that certain properties within the subject tax classes would be taxed at a different (higher) rate than others. Further, whereas the City is only responsible for the rate of taxation with regard to its existing general property tax programs, its Council would be responsible for establishing every aspect of a VHT program.

In other words, the City and its Council would be responsible for not only determining the VHT rate of tax, but also who will be subject to it (and who will not). As to the question of how a VHT would be received by the City's ratepayers if Council were to proceed, that answer would depend on whether the tax is seen as necessary and fair.

A VHT may be seen as necessary if implementing it were to result in a noticeable increase in the number of properties available for rent and if it generates sufficient net revenues to provide meaningful support to affordable housing programs in the City.

Despite this, there is also a possibility that should the City implement a VHT and none of its adjoining or competing jurisdictions follow suit, it could well result in a flight of capital from the City as real estate investors flee to other markets that have fewer (or no) restrictions on such investments.

#### b. Required Costs versus Anticipated Revenues

Aside from the philosophical and policy questions, Required Costs vs. Anticipated Revenues is the central question that the City needs to determine before concluding whether to implement a VHT. Of the two, costs and revenues, costs are easier to determine.

Critically, these decisions and the processes involved are also time intensive and expensive. Plus, once these initial start-up costs have been incurred, there will be the ongoing annual cost (staffing, advertising, adjudication, processing, audit, enforcement, etc.) to administer the program.

On the revenue side of the equation, the issues are less quantifiable and more complicated. This is because it is almost impossible to accurately predict the actual number of properties that will end up being subject to a VHT. Any criteria set by the City will, at best, provide an upside estimate of what revenues the program may produce. Further, until the program is operational, exemptions are being processed and funds being collected, it will be impossible to know what the City's "net" position would be. It is also difficult to estimate the number of Hearing Officers who will be required to hear and rule on complaints as well.

What this means is that implementing a VHT would require the City to incur considerable expenses to create the program, additional ongoing operational expenses to administer it, and uncertain returns from doing so. As a result, it is MTAG PPC's opinion that this makes the economics of doing so questionable.

#### c. Legacy Costs incurred if a VHT is implemented and then discontinued

Were the City to implement a VHT and then determine that it wished to discontinue the program, there would be legacy costs associated with doing so. These costs would be both financial and reputational.

The financial costs are straightforward. Implementation costs would not be recoverable with no benefit. Staff hired to administer the program, or for whom a change in pay grade was awarded to recognize additional work or responsibility, would either no longer be required or would need to have their positions re-evaluated.

Finally, from a reputational standpoint, the City could find that implementing then suspending a VHT program could be seen as an admission that the decision to implement the program in the first place was ill-conceived, ineffective, and should never have been done in the first place.

### **Experience of other Municipalities**

To date, VHTs have only been implemented in the two largest jurisdictions in Ontario with the third largest, Hamilton implementing for 2024. MTAG PPC is also aware that several other mid-size municipalities outside the GTHA including Waterloo Region and the City of London, previously undertook preliminary reviews but decided not to proceed with a VHT in their jurisdictions.

Both Toronto's and Ottawa's VHT surcharges are one per cent of assessed value, and it is the responsibility of staff to identify every residential unit across the municipality. From there every residential unit owner must file a declaration annually.

If the owners do not file requests for exemptions (or do not do so on time), then the default position of both municipalities is to apply the VHT. They also advise that, thus far, it is the handling of requests for exemptions and appeals against decisions to impose the VHT that account for most of their administrative workload and cost.

Where municipalities decided to not proceed with implementing a VHT the reasons can be summarised as follows:

- Lack of agreement between politicians and stakeholders as to the need
- Belief that the number of properties which could be considered vacant did not warrant the cost of implementing the program
- That implementing a VHT would not appreciatively increase the number of properties available for long-term rental

In other words, these municipalities reached the conclusion that the merits of imposing a VHT in their jurisdictions did not warrant the cost, complexity, and time required to do so.

### **Conclusion**

The decision to implement a VHT is not something that can be made lightly. There are genuine cost consequences to implementing such a program, and while such a program will generate revenues, there are real questions whether, in municipalities the size of Guelph, if this funding would be enough to cover operational and administrative costs, let alone providing support for local affordable housing initiatives.

This is an extremely complex issue with no correct answers. However, the concept of charging different rates of tax to properties in the same tax class is contrary to the philosophy that has guided Guelph's Tax Policy for some time. Given this, and

the experience of other municipalities outside the GTHA, it is MTAG PPC's belief that if a VHT is implemented in a city the size of Guelph, that:

- It is unlikely that there are large numbers of properties that would otherwise be available for rental that are currently being withheld from the market for investment purposes, especially in a municipality such as Guelph which is a "university town" in which rental properties are always in demand; and
- The potential revenues that could be generated by a VHT Program would be hard pressed to cover the costs of developing, implementing, and administering it. As a result, it is possible that a VHT program would not be either self-sustaining or provide funds for Affordable Housing and other such programs.

This therefore suggests that in the absence of statistical evidence, but knowing the size of the City, implementing a VHT in Guelph is unlikely to generate either the necessary revenue gains, or fulfill the City's anticipated policy and economic goals that would justify doing so.

### **Financial Implications**

This report has no direct financial implications.

### **Consultations**

Municipal Tax Advisory Group Paralegal Professional Corporation

### **Attachments**

Attachment-1: An Analysis: Implementing a Tax on Vacant Residential Units in The City of Guelph.

### **Departmental Approval**

None

### **Report Author**

James Krauter, Deputy Treasurer, Manager of Taxation and Revenue

### **This report was approved by:**

Tara Baker  
General Manager, Finance and City Treasurer  
Corporate Services  
519-822-1260 extension 2084  
tara.baker@guelph.ca

### **This report was recommended by:**

Trevor Lee  
Deputy Chief Administrative Officer  
Corporate Services  
519-822-1260 extension 2281  
trevor.lee@guelph.ca