

Housing Affordability Tax Changes: Part 1 - BC Speculation Tax Explained



04 Jun 2018

Written by: editor

Tags: Taxation, Real Estate

In this first installment on housing affordability tax changes, our [Manning Elliott Tax Team](#) will look at the new British Columbia Speculation Tax.

The BC Speculation Tax will apply to any residential property (*including homes, condos, and cottages*) in BC that is left unoccupied for 6 months or more within a calendar year. The hardest hit areas will be BC's hottest real estate markets including Vancouver, Kelowna, Nanaimo, and Victoria.

Which areas in BC are impacted by the Speculation Tax?

The Speculation tax, which is a retroactive and punitive tax, applies to unoccupied residential properties within the following areas of British Columbia:

- Metro Vancouver (*excluding Bowen Island and Electoral Area A, except the part of the electoral area that is the UBC and University Endowment Lands*)
- Capital Region District (*excluding the Gulf Islands and Juan de Fuca*)
- Kelowna-West Kelowna
- Nanaimo-Lantzville (*excluding Protection Island*)
- Abbotsford
- Chilliwack

- Mission

*Most islands in British Columbia are excluded.

Which residential properties in the impacted areas would be subject to the Speculation Tax?

All residential properties would be subject to the BC speculation tax unless one of the following exemptions is met:

- Primary residences of British Columbians.
- Properties used as qualifying long-term rentals (*including condos and cottages*).
 - 2018: rented at least 3 months
 - 2019 onwards: rented out for at least 6 months in increments of 30 days or more
- Or if the owner or tenant is:
 - In a hospital under medical care
 - In a long-term care or supportive care facility
 - Away temporarily for work purposes
 - Or the registered owner is deceased and the estate is in the process of being administered

What is the Speculation Tax Rate?

The following BC speculation tax rates will apply to the fair market value of the property:

- Year 2018: 0.5%
- Year 2019 onwards:
 - 2% for foreign investors and satellite families
 - *A satellite family is where a member of the family lives in BC but does not pay BC income taxes. For example, a family member living in BC with an income-earning spouse residing outside of BC;*
 - 1% for Canadian citizens and permanent residents who don't live in BC
 - 0.5% for Canadian citizens and permanent residents who live in BC who are not a satellite family member (*exemptions apply for properties valued at less than \$400,000*)

Are There Tax Credits Available?

A tax credit is available in certain instances:

- If the Speculation Tax applies and you are a resident of BC (*who is not a satellite family member*), you will be eligible for a tax credit that is applied against the Speculation Tax.
- Maximum tax credit available is \$2,000.
- For homeowners with multiple properties, the tax credit will only apply to one property.

What BC Speculation Tax issues should we be concerned with?

Administration & Enforcement - The NDP government has provided little information regarding

the administration and enforcement of the Speculation Tax and formal legislation isn't expected until the fall. Based on the information we do know, it is intended to apply in January 1, 2018. However, there is no clarity on whether the tax will be a personal tax (ie. follows the taxpayer even after they sell) or whether it will follow the property. This poses the question as to who will be responsible for paying this tax in 2018 if a property sale has occurred; the seller or the buyer.

Primary Residence Definition - The limited information provided states an exemption exists for residential properties that are the primary residence of an owner. However, no clarification has been provided as to what the definition of a "primary residence" includes. Does it take on the definition of a "principal residence" per the Income Tax Act? Or perhaps the definition in BC's Property Transfer Tax Act? The definition differs depending on the source.

What Constitutes A Family - The Speculation Tax specifically targets "satellite families" however, there is no guidance on what constitutes a "family". Does it include parent-child? Siblings? Common law relationships? Also, consider the example where a family who lives in Alberta has a child attending a university in BC. The child can't find a rental apartment and as such, the family purchases a condo for the child to live in. The child doesn't pay rent. Would the Speculation Tax apply because the child is considered a "satellite family" and the family doesn't pay tax in BC?

According to the NDP Government of British Columbia, the BC Speculation Tax was designed to increase the available residential properties on the market by discouraging absentee owners from leaving their properties vacant. The NDP also hopes this will cool down high BC real estate prices.

If you still have questions about the BC Speculation Tax, please contact the [Manning Elliott Tax Team](#). We also invite you to [subscribe to our mailing list](#) so we can keep you up to date on all future [tax related articles](#).

The above content is believed to be accurate as of the date of posting. Canadian and US Tax laws are complex and are subject to frequent changes. Professional tax advice should be sought before implementing any tax planning. Manning Elliott LLP cannot accept any liability for the tax consequences that may result from acting based on the information contained therein.
