



Region of Peel Vacant Home Tax

Stakeholder Engagement Summary and Final Program
Design

April 2023

CONTENT



Purpose

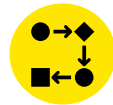
This presentation summarizes the findings from stakeholder consultations and presents the results of analysis performed through EY's engagement to design a Vacant Home Tax (VHT) at the Region of Peel.



Context and Background of the Vacant Home Tax



Summary of Public and Industry Stakeholder Consultations

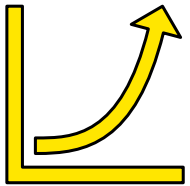


Overview of each of the core functions of the Vacant Home Tax Program Design including Reporting & Declaration, Audit & Compliance, Collection, and Communications

DESIGNING THE VACANT HOME TAX | CONTEXT AND BACKGROUND

There are a number of policy levers and revenue tools that can be explored by municipalities to address a housing affordability crisis – a tax on vacant homes being one of them.

The tax is commonly implemented in rapidly growing urban centres which face challenges related to housing such as:

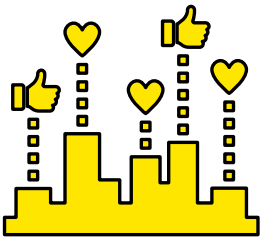


Rapidly appreciating house prices (at a rate higher than the growth of income)

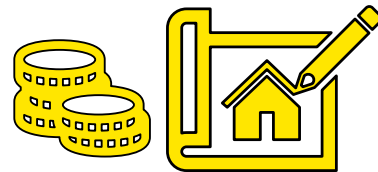


Low availability of homes for sale or rent

The objectives of a Vacant Home Tax are to be:



A policy tool to improve housing affordability

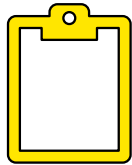


A revenue tool to support housing programs

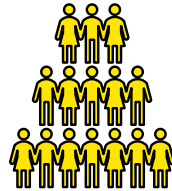
FINDINGS FROM STAKEHOLDER CONSULTATIONS

The objective of the consultations was to provide an opportunity to address any queries that the public may have and understand the general level of support for the Vacant Home Tax.

Consultation Highlights



4000+ survey respondents



49 attendees from general public and stakeholders



2 presentations to industry stakeholders by Regional Staff and EY



4 polls conducted to gauge public opinion



50+ questions addressed by Regional Staff and EY

WHAT WE HEARD

86%

Respondents agree that Peel Region is facing challenges with housing affordability

57%

Respondents agree that the number of vacant homes in Peel is negatively impacting the supply of affordable homes in Peel

68%

Respondents support the implementation of a Vacant Homes Tax to address housing challenges in the Region of Peel

TOWNHALL POLL RESULTS

70%+

Townhall participants agreed that Peel Region is facing housing affordability challenges

50%+

Townhall participants supported the proposal of a vacant homes tax in Peel Region

81%

Townhall participants agreed that proceeds from a vacant homes tax may be allocated towards affordable housing initiatives

FINDINGS FROM STAKEHOLDER CONSULTATIONS

Throughout the engagement, the EY team conducted a number of stakeholder consultations to gain a deeper understanding of the desired outcomes, implementation considerations and potential risks of a Vacant Home Tax.

Inputs on Identification of Vacant Homes	Inputs on Implementation of the Tax
Identification of vacant homes should be non-invasive to avoid privacy concerns (e.g. through self-declaration).	Stakeholders were open to the idea of a hybrid operating model where responsibilities of implementation were divided between the Region and lower tier municipalities based on inherent efficiencies.
Inputs on Compliance and Auditing	Inputs on Definition and Exemptions
A comprehensive compliance and auditing process will need to be established, potentially including random audits (seen as the most viable option) and public complaints.	Proper definition of a vacant unit, and exemptions should be made clear to the public to minimize unintended consequences, and exemptions seen in other municipalities were acceptable.

DESIGNING THE VACANT HOME TAX | CONTEXT AND BACKGROUND

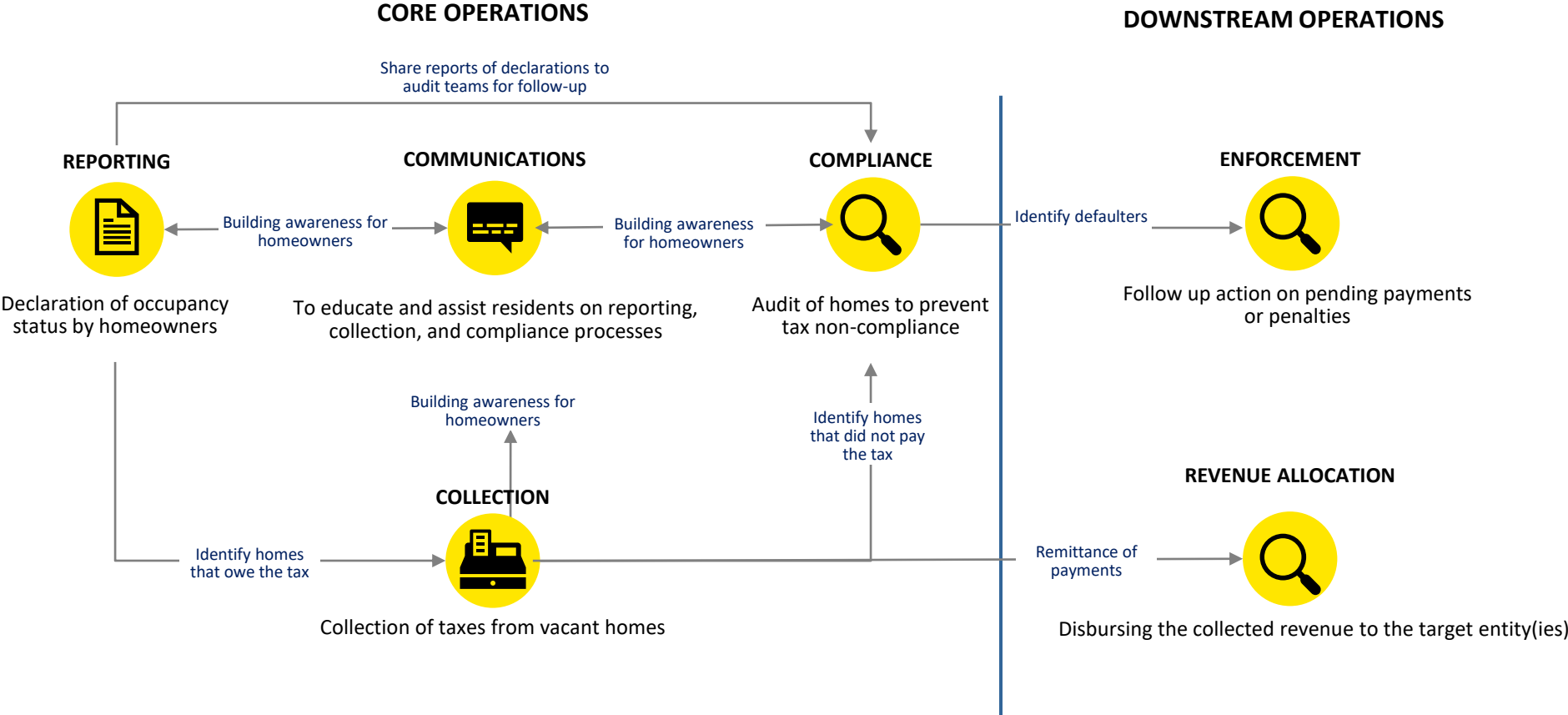
While developing the policy and by-law for the vacant homes tax, municipalities are required to define what qualifies a home to be designated as vacant. Below are the parameters of the tax and the rationale for each in Peel.

Parameter	Rationale
<p><u>Definition:</u> Unoccupied for more than 184 days within the reference period</p>	<p>Similar to definitions implemented by Toronto, Ottawa, and Vancouver</p>
<p><u>Tax rate:</u> Initial tax rate of 1%</p>	<p>Most common starting rate observed to be chosen by municipalities</p> <p><i>Note: Vancouver initially selected a 1% tax rate, and as of 2023 has increased the tax rate to 5%. Toronto has similarly selected a 1% tax rate for its initial implementation.</i></p>
<p><u>Reference Period:</u> Calendar year</p>	<p>Similar to property taxes, the vacant home tax is calculated based on the assessed values of homes. Setting the reference period to a calendar year basis aligns with property tax calculation and collection schedules in local municipalities.</p>

* mandatory item

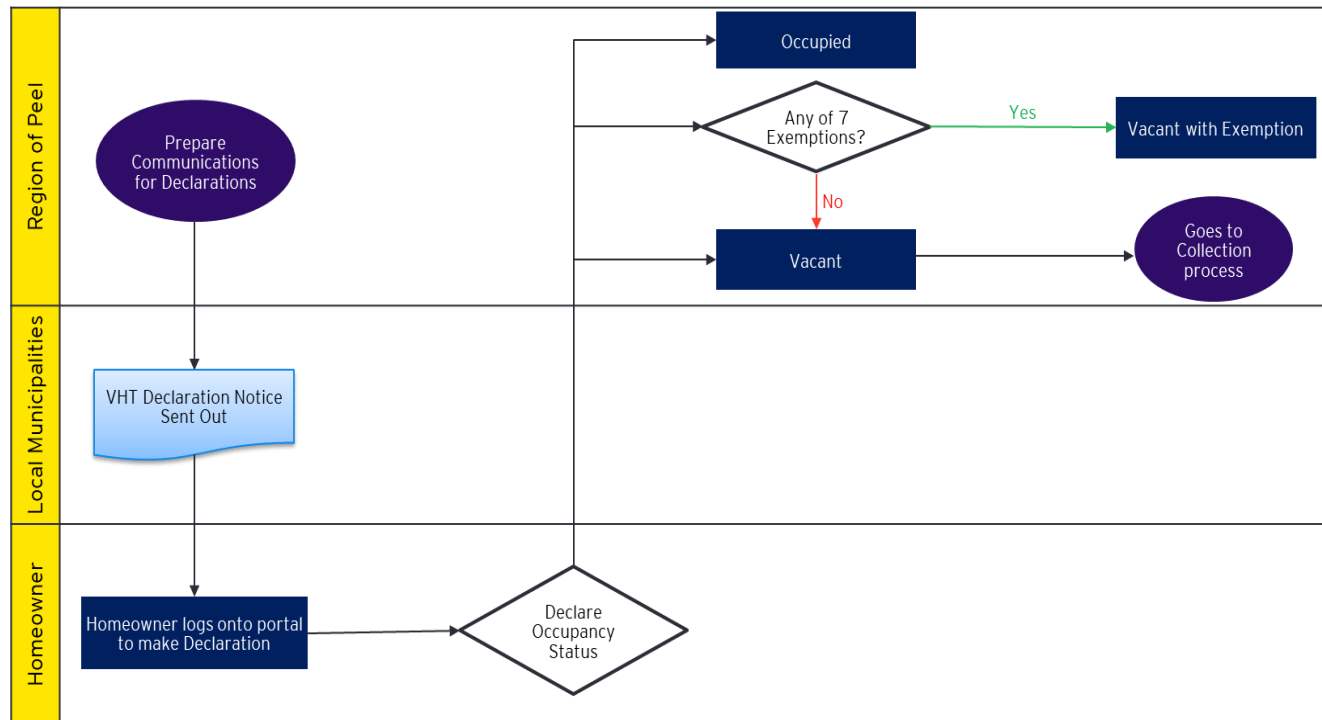
VACANT HOME TAX DESIGN | CORE AND DOWNSTREAM OPERATIONS

Operations of the vacant home tax can be segmented into two major groups – core operations and downstream operations – as illustrated below.



DECLARATION & REPORTING

The first step in the Vacant Home Tax process requires homeowners to declare the occupancy status of their homes.



- All Peel homeowners are required to declare whether a home is occupied, vacant with exemption, or vacant.
- A notice informing the homeowner of the requirement to declare the home’s occupancy status is sent by local municipalities.
- Homeowners enter and confirm their declaration through a Region-administered declaration portal.
- Homes declared vacant, or deemed vacant through the Audit & Compliance process, will proceed to the Collection process.
- Homes declared occupied, or confirmed occupied through the Audit & Compliance process, will not proceed beyond Declaration.

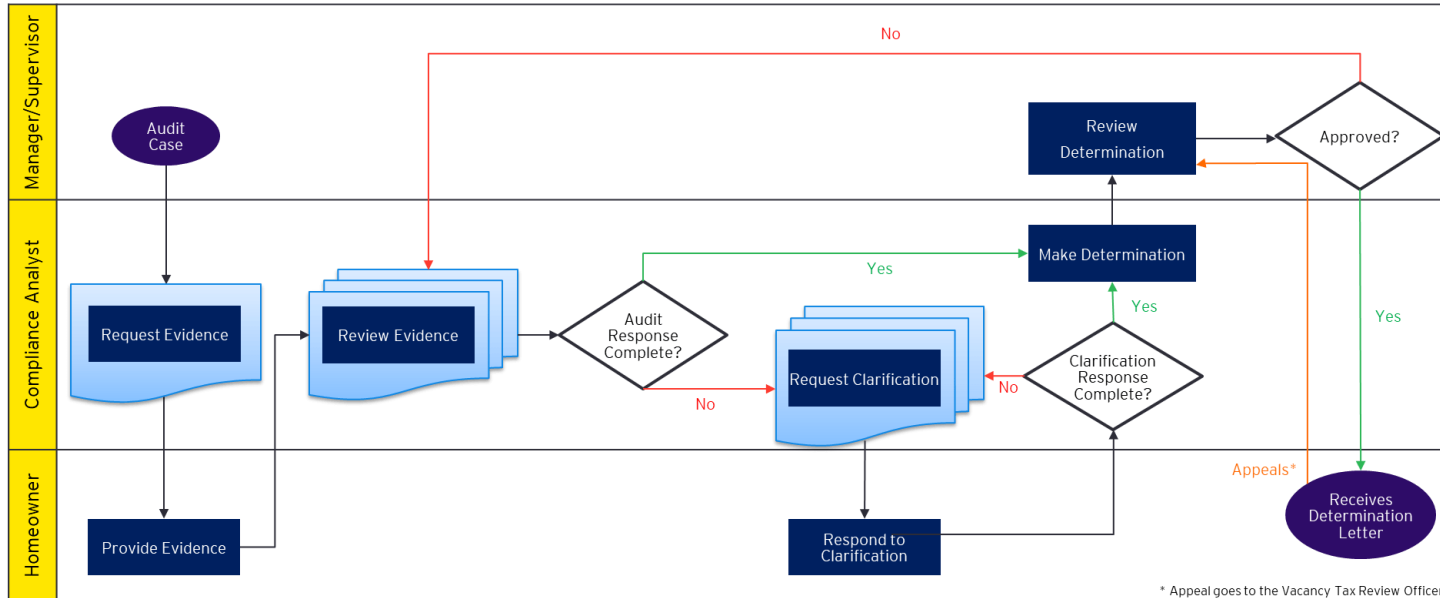
DECLARATION & REPORTING | EXEMPTIONS

The following is a proposed list of seven exemptions that residents may select from during the Declaration process. The table includes the definition for each exemption along with the information residents are required to provide on the Declaration.

Exemption		Definition
1	Transfer or Sale of Property	The transfer of 100 percent of the legal interest in the property was registered during the reference period.
2	Redevelopment or Major Renovation	Property is undergoing major renovations, construction, or redevelopment that causes the property to be vacant for more than 184 days where building permits have been issued and permit work in progress. If the property is a heritage property, it will not be subject to the tax if activity related to its conservation, such as redevelopment or renovation, resulted in the property qualifying as being vacant in the reference period.
3	Owner in Care	Property was unoccupied for more than 184 days because the owner, tenant, or permitted occupant resided in a hospital, long-term, or supportive care facility.
4	Occupancy for Full time Employment	Principal Residence was outside of the Region, but the owner occupied the property for residential purposes for more than 184 days within the reference period because they were employed full-time in the Region.
5	Court Order	Property was unoccupied for more than 184 days because the property was under: a court order; court proceedings; or an order of a governmental authority prohibiting occupancy.
6	Death of Owner	The property was unoccupied for more than 184 days because of the death of the registered owner in the applicable reference period or in the previous period.
7	Combination Exemption	A combination of any of the above exemptions resulting in a total of more than 184 days of vacancy in a reference period.

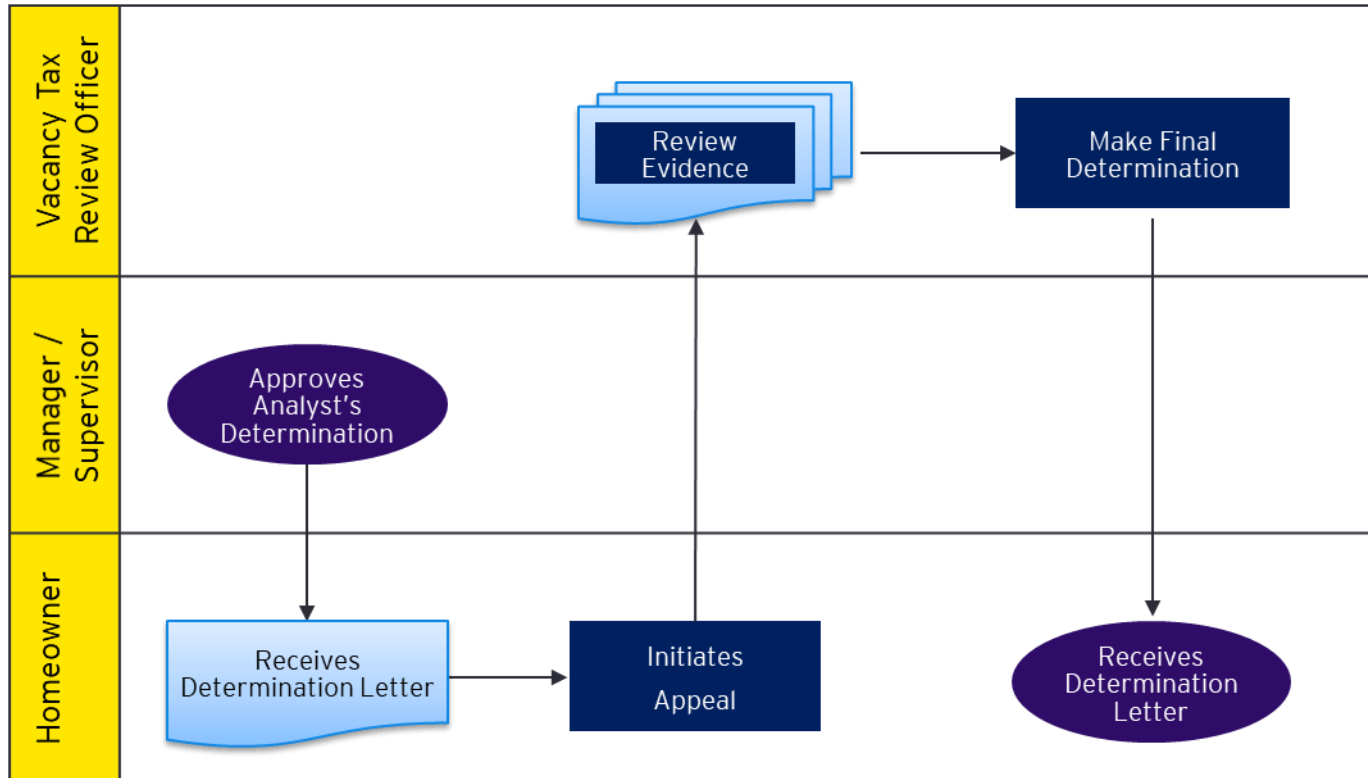
AUDIT & COMPLIANCE

Following receipt of a declaration, the Audit & Compliance process is initiated in a separate software system to assess and validate declarations. Audit rates vary depending on type and volume of declarations, and on the ease of availability of verifying information. Additionally, all declarations may be subject to audit for up to two (2) years after the date of declaration.



- A new audit software system will be required to manage external-facing audits. Integration with the declaration system will be required.
- A dedicated Vacant Home Tax organization is created within Peel to manage audits and other program functions, as observed in other municipalities.
- Homes declared as vacant with exemption are audited based on predetermined parameters (e.g. volume, access to information).
- Homes declared as occupied are audited based on auditor capacity and total audit volume targets.

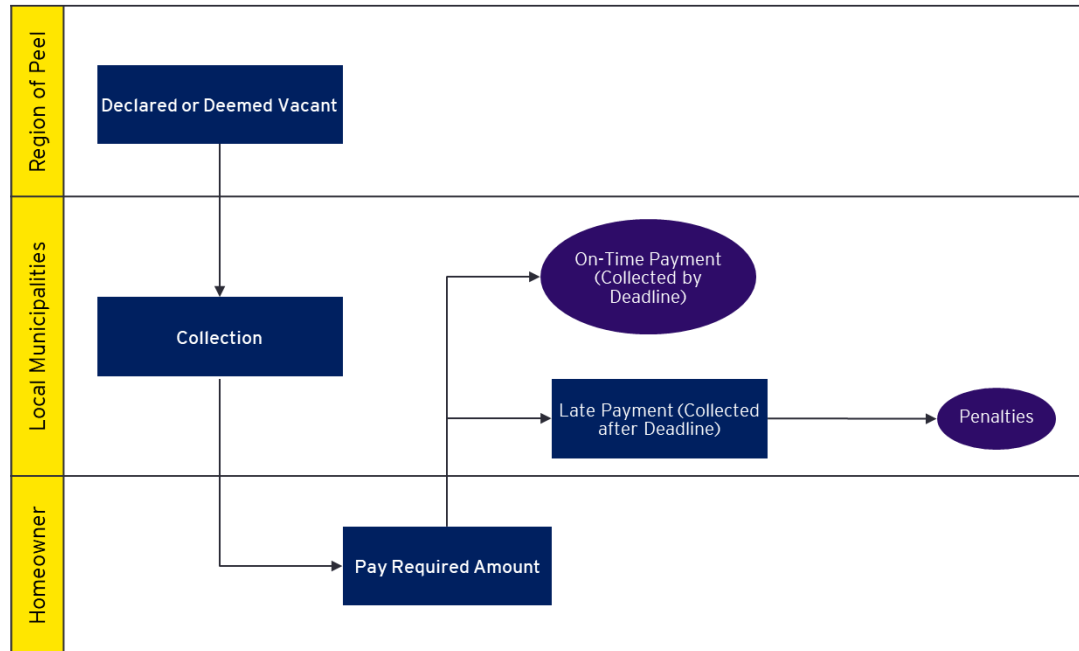
AUDIT & COMPLIANCE | APPEALS



- Audit findings may be appealed. Appeals are reviewed and a final determination is made by a dedicated Vacancy Tax Review Officer.
- Homeowner inquiries not relating to vacancy status decisions (e.g. failure to submit a declaration, errors in declaration) are directed to dedicated positions within the organization.

COLLECTION

Following a declaration or determination of vacancy, the collection process is initiated through a separate module in existing property tax systems.



- If a home is declared vacant, or deemed vacant through the Audit & Compliance process, the Vacant Home Tax is applied and collection is initiated.
- Collection processes flow through a separate module built into each local municipal property tax system.
- The tax amount to be collected is based on the assessed value of the home multiplied by the tax rate.
- A bill is generated and sent for identified homes through local municipality property tax systems.
- Penalties for late or false declaration, or late vacant home tax payment, are calculated and bills are issued by the local municipalities.

COLLECTION | CONSIDERATIONS

- All three local municipalities have indicated an intent to replace their respective tax collection systems within the decade.
- The Region may consider deferring implementation of the VHT until all local municipalities have updated their collection systems, which may result in lost revenue.
- The Region may consider developing an interim approach to collection with the local municipalities to determine a different method of collection, such as building modules within current systems and subsequently building modules again with the new systems.
- Should Peel decide to fund the building of collection modules for current and new collection systems, one-time implementation costs may be doubled as a result.

COMMUNICATIONS

Following a declaration or determination of vacancy, the collection process is initiated through a separate module in existing property tax systems. Communication with homeowners is on-going throughout the vacant home tax process, but has two important phases:



INITIATION PHASE

- Initial campaign informing homeowners that a Vacant Home Tax will be implemented
- Includes an explanation of what the tax is, why it is being implemented, an overview of what the process will be, and any other pertinent information for the homeowner to be aware of



ONGOING OPERATIONS PHASE

- Sending out regular reminders, instructions, and deadlines for Declarations, Collections, and Audits
- Handling inbound queries and complaints from homeowners
- Escalating queries as needed through the appropriate channels

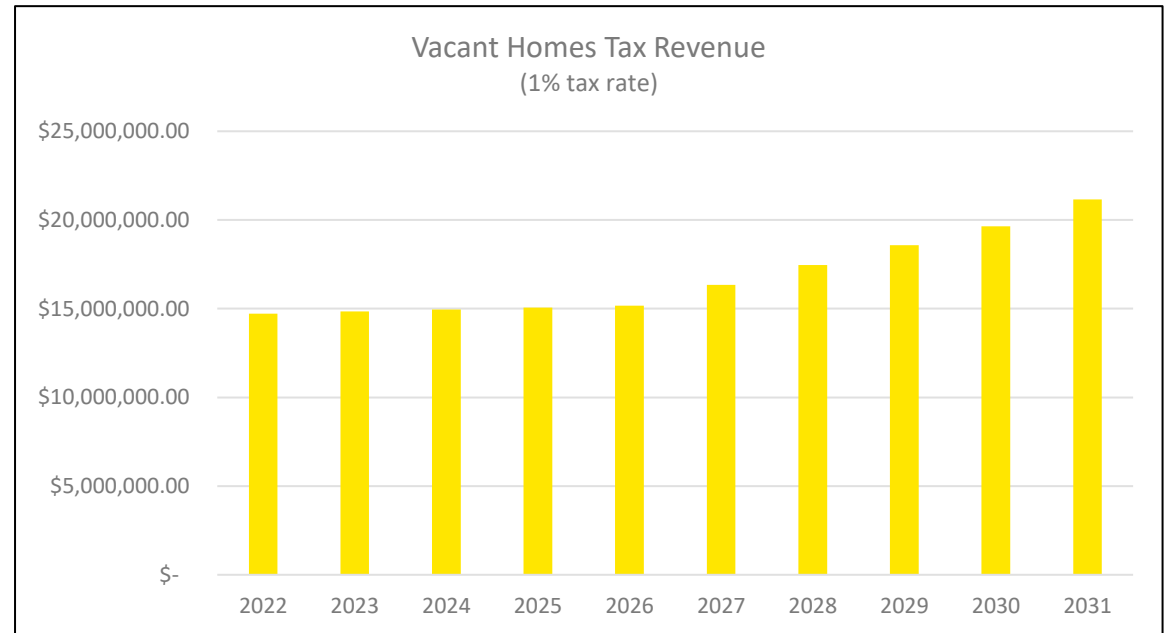
FINANCIAL ANALYSIS | REVENUE ESTIMATION

Estimates based on the latest available data indicate that the Region may generate an average gross annual revenue of nearly \$17M over 10 years with a 1% tax rate using available MPAC assessment values from 2016.

Below are the revenue estimates for eight scenarios involving various tax rates. The tax rates represent a continuum from a low of 0.5% to a high of 3.0% (rate that has since been in place at the City of Vancouver prior to recent changes), and are multiplied by the average assessment value of homes to obtain the revenue from the tax levy.

	Average Revenue/Year (10 years)			
	Tax Rate	ABRR*	Self Declaration	Audit Activity
Scenario 1	0.50%	1.50%	\$8,405,161	\$508,200
Scenario 2	1.00%	2.50%	\$15,992,148	\$801,153
Scenario 3	1.25%	3.00%	\$19,500,396	\$947,630
Scenario 4	1.50%	4.00%	\$22,274,404	\$1,094,106
Scenario 5	2.00%	5.00%	\$28,281,648	\$1,387,059
Scenario 6	2.25%	5.50%	\$31,053,241	\$1,533,536
Scenario 7	2.50%	6.00%	\$33,679,228	\$1,680,013
Scenario 8	3.00%	6.50%	\$39,453,923	\$1,972,966

10 year revenue projections for a 1% tax rate (most common rate chosen by cities)



*Annual Behavioral Response Rate: The expected total number of units that will be returned back to the rental or for sale market on an annual basis.

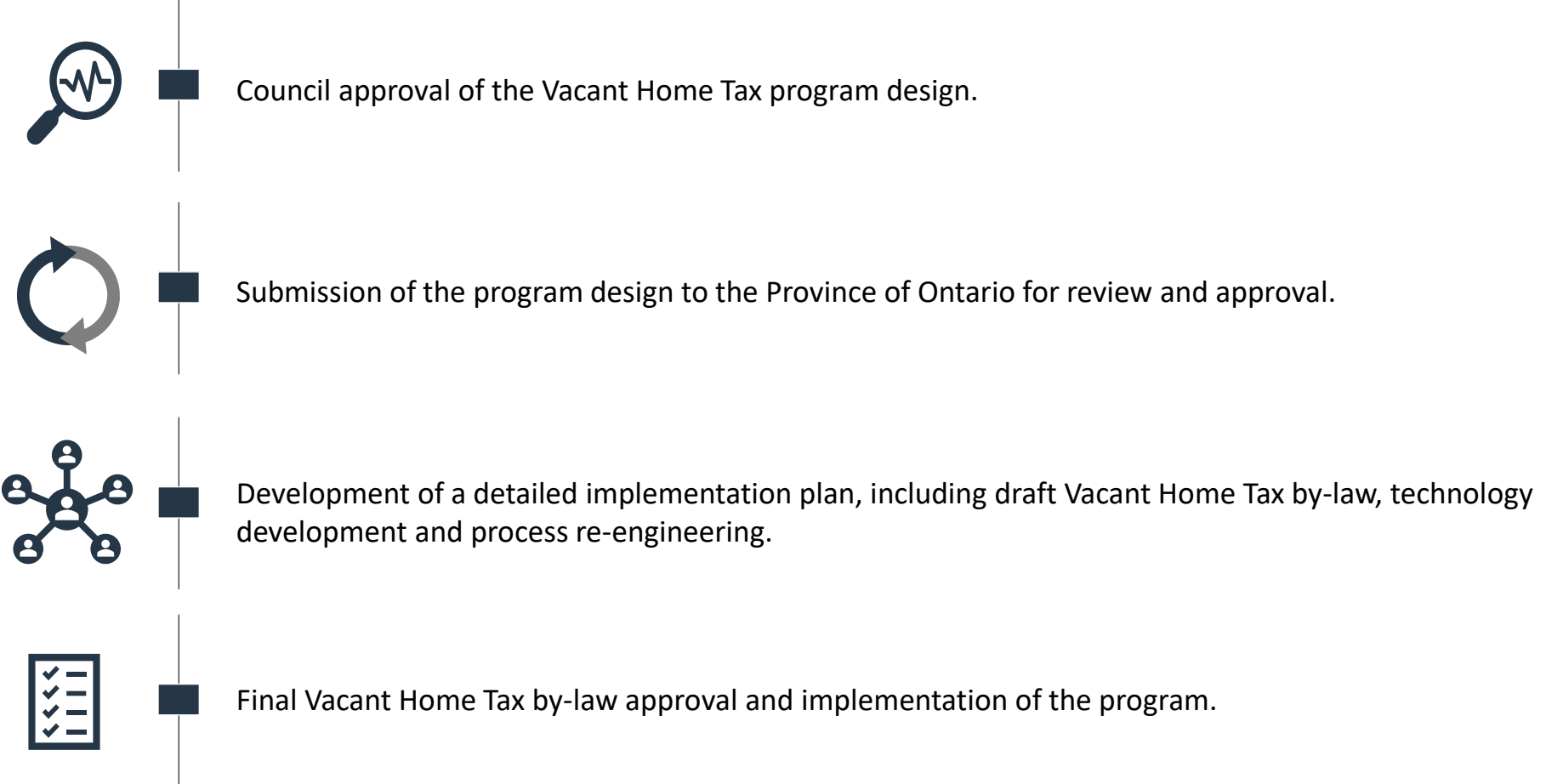
FINANCIAL ANALYSIS | COST ESTIMATES

Based on the changes required in the identified delivery model, one-time costs to borne by the Region are anticipated to be between \$11.67M and \$13.67M, Peel operating costs are estimated to be \$3.8M annually, and local municipal operating costs to be \$0.5M annually, which are anticipated to be recovered through associated tax collection revenues.

	Region of Peel			Local Municipalities
	One-Time Costs	Ongoing Costs		Ongoing Costs
People	Negligible	\$3.3M	People	\$0.45M
Process	Negligible	Negligible	Process	No material ongoing impacts expected
Technology	\$11.67 – 13.67M	\$0.5M	Technology	\$0.1M
TOTAL	\$11.67 – 13.67M	\$3.8M	TOTAL	\$0.55M

CONCLUSION AND NEXT STEPS

As indicated in the financial analysis, the vacant homes tax appears to be a feasible policy and revenue tool to address housing affordability at the Region of Peel. The following steps are to be taken to implement the Vacant Home Tax.



EY | Assurance | Tax | Transactions | Advisory

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