

UBC economist proposes solution to Vancouver's affordability crisis

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New research from UBC Sauder School of Business associate professor Thomas Davidoff could help combat Vancouver's housing affordability problem. In new research published in the *Canadian Tax Journal*, Davidoff outlines how a new model for calculating property tax could help renters.

According to Davidoff, because housing supply in Vancouver is very inelastic, even if prices rise, it's hard to add new quantity.

"Generally, economists believe that taxes should be higher on goods that are supplied or demanded inelastically," he said. "Because Vancouver has notoriously inelastic housing supply, one might expect property tax rates to be higher here than elsewhere in Canada; however, property taxes are actually very low in Vancouver. We have a high tax base because properties are expensive, but by any measure the property tax burden is low here."

The result is an out-of-balance tax system—Vancouver is a great place to buy real estate but not a great place to make a living, in terms of tax policy.

His research proposes measuring property taxes based on the potential rent for the property, instead of the property's value. Using this measure, Vancouver's property taxes should be about four times that of a typical Canadian city; currently, they are below that of a typical Canadian city.

"What I am proposing is a transfer from owners to renters, meaning property owners would pay more taxes and renters less, but everybody would pay less [income](#) and sales tax," said Davidoff. "This would be possible because while some of the additional property taxes would stay within the municipality, the rest would get kicked up to the provincial government. The province could then cut income and [sales taxes](#) for everyone, provided of course that they treat it as a budget-neutral transfer, and don't find new ways to spend the money."

In short, if you owned a moderate value home, "it would be a wash," said Davidoff. "If you owned a fancy home, you would lose, unless you make a really great income, in which case you're back to a wash."

The proposal can help renters, he added. "For example, under the current situation, if you're a tech sector worker and you have a good salary but you're really struggling to find a rental in Vancouver, even with your high salary, you're thinking: 'I'm paying really high income tax and really high rent, but my landlord is paying very little in property tax. If we switched that, I'd be better off.' "

Raising property taxes and lowering income and sales taxes can stimulate the economy, says Davidoff "People recognize that unaffordability is currently hindering the economy, due to how hard it is to draw workers here to Vancouver who can't be comfortably housed. But lowering income and sales taxes will also bolster the economy, because people will have more money to spend and more incentive to work and do business. It's this extra incentive due to lower income and sales tax rates that is behind the theoretical result."

Davidoff believes his proposal is feasible—for most people in B.C., a tax on \$3 million properties has no adverse impacts. However, he acknowledges that property tax reform is politically very controversial. "There is currently a lot of resistance to the additional school tax on high

value homes, but this is confined to a certain segment of the population," he said. "But there is also a very important block of voters—people near or past retirement age, and homeowners.

"For them, raising [property taxes](#) means less money in their pocket, it means the value of their property falls, and given where they are in life, they've already paid most of their income and sales taxes, so they would perceive this as very unfair to them. Politicians that hope to implement something like a budget-neutral transfer of property to income and sales taxes have to be very careful how they do it."

Provided by University of British Columbia

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