CMHC-Backed Report Proposes Taxing Homeowners on Property Values Over $1M

The idea of taxing the gains in equity of homeowners in not new. However, it is surprising that a new report backed by Canada's national housing agency is calling for a home equity tax on houses valued at $1 million and more to address housing affordablity.

The report, which was released by housing affordability think tank [Generation Squeeze] and funded by CMHC's National Housing Strategy's Solutions Labs Program was intended to takes a hard look at Canada's housing affordability challenges, and proposes measures to help reign in rampant price growth, which has become particularly acute in many Canadian cities over the course of the pandemic.

A number of major Canadian housing markets experienced record-breaking years in 2021, with both sales and price gains smashing previous benchmarks set in 2016. This has put pressure on all levels of government to produce policies that will improve housing market affordability and stem speculative investor activity.

The report draws three main conclusions, including tweaks to the CPI measure used by the central bank when setting monetary policy, and establishing a new affordable housing bond to finance the creation of affordable rentals.

Taxing on Homeowners with Values over $1M?

The recommendation that caused the clamor and created media attention was related to the suggestion of an annual surtax on homes valued over $1 million. The tax would increases on a progressive scale based on a home's value:

- **Homes valued between $1 million – $1.5 million: 0.2%**
- **Homes valued between $1.5 million – $2 million: 0.5%**
- **Homes valued above $2 million: 1%**

Homeowners would have the choice to pay annually, or defer the tax, with interest, until they sell the home.

The goal would be to reduce the amount of tax-sheltered funds currently held up in principal residences, which would de-incentivize using real estate as a source of wealth accumulation, rather than as a place to live.

Home Value	% of households Canada	# of households Canada	Average Value	Surtax Rate	Avg Annual (deferrable) Surtax payment	Annual Revenue (Billion $)
$1 to $1.5 million	5.5	845,108	1,204,184	0.2%	$408	$0.35
$1.5 to $2 million	1.8	271,618	1,723,587	0.5%	$2,118	$0.58
$2 million +	1.6	246,063	3,121,013	1.0%	$14,710	$3.62
Total	**8.9**	**1,362,789**				**$4.54**

Home Value	% of households Canada	# of households Canada	Average Value	Surtax Rate	Avg Annual (deferrable) Surtax payment	Annual Revenue (Billion $)
$1 to $1.5 million	5.5	845,108	1,204,184	0.5%	$1,021	$0.86
$1.5 to $2 million	1.8	271,618	1,723,587	0.5%	$3,618	$0.98
$2 million +	1.6	246,063	3,121,013	1.0%	$16,210	$3.99
Total	**8.9**	**1,362,789**				**$5.83**

Generation Squeeze suggests such measures would bring over $5 billion annually, which could be allocated towards affordable housing initiatives, green co-ops, or into social services such as childcare or long-term care.

Source: Generation Squeeze

Cure For Canada's Housing Inequalities?

CHBA and local Associations like the RRHBA have for a long time explained to government that the real issue is housing supply, especially ground orientated. The inequity is imbalance between demand and supply as the #1 source of significant price escalation.

Supply issues pre-date the pandemic, but the pandemic has taken the undersupply to a whole new level in many Canadian cities.

As example, Regina was cushioned from supply shortages that have driven massive price increases in other cities. The Regina market has been cooling since 2016, resulting in ample supply to meet demand. As a result, as the New Home Price Index demonstrates Canadian new home prices have increased by 20.5% from 2016 to 2021, Regina' new home actually decreased in price by.7% over the same period.

"Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies."

- **Groucho Marx**

However, even Regina is not immune to price escalation in the future because of demand and supply imbalances. While Regina still has a healthy amount of apartment condo units, ground orientated has changed dramatically and the available serviced land to support an increase in demand has eroded significantly.

Municipalities not approving appropriate enough land to accommodate newcomers and a growing population, mixed with restrictive zoning regulations that don't allow for gently increases in density in existing cities footprints and lacking political will to address NIMBYism have more of an impact on inequalities of housing citizens then trying to desensitize people who have worked hard to build equity in their homes.

Political Sensitivity

Taxing the gains in homeowners' equity has long been a prickly point of discussion in Canada. Over the years, governments of different strip have long understood that imposing such a surtax on the equity of people's homes comes with significant political risk.

It is unfortunate that CMHC spent $250,000 on a study, that does have some ideas worth exploring only to be completely overshadowed by one item in the research. This simply might be the remnants of CMHC under its former anti-homeownership president.

Taxing Home Equity Is Wrong

Canadians work hard to build equity in their homes. They use that equity to buy new home and at times use that equity to finance other aspects of their lives, like investing in a business, education and most often to provide for retirement. Regardless of how Canadians chose to use the equity they have built, it has always been exempted from federal taxes.

The idea of taxing the equity of homeownership is equivalent to making footprints in quicksand.

To be very clear, CHBA and the RRHBA are staunchly against any type of home equity tax.