2. Residential Vacant Unit Tax

Impôt sur les logements vacants

COMMITTEE RECOMMENDATIONS

That Council:

1. **Adopt the Vacant Unit Tax (VUT) program outlined in this report starting in 2023 for the 2022 vacancy period.**
2. **Approve a one percent vacant unit tax on the current value assessment of the residential properties that meet the vacant unit tax definition.**
3. **Appoint the Review authority and Program Administrator for the Vacant Unit Tax Program as outlined in this report.**
4. **Direct the Deputy City Treasurer, Revenue Services, to apply to the provincial Minister of Finance requesting Ottawa be designated as an eligible municipality to levy a vacant unit tax and to place the draft by-law substantially in the form attached as Document 3 on an agenda of Council for enactment, following such designation by the Province.**
5. **Approve the Vacant Unit Tax program delivery annual operating costs, start-up costs and permanent and temporary full-time equivalent positions, as outlined in this report.**
6. **Direct the net revenues from the vacant unit tax towards affordable housing as outlined in the Housing Services Long Range Financial Plan.**

RECOMMANDATIONS DU COMITÉ

Que le Conseil municipal:

1. **adopte le programme d'impôt sur les logements vacants décrit dans ce rapport à partir de 2023 pour la période de l'inoccupation de 2022.**
2. **approuve un impôt d'un pour cent sur les logements vacants sur la valeur marchande des propriétés résidentielles qui satisfont à la définition de l'impôt sur les logements vacants.**
3. **nomme l'organisme d'examen et l'administrateur du programme d'impôt sur les logements vacants, comme indiqué dans le présent rapport.**
4. **ordonne au trésorier municipal adjoint, Services des recettes, de demander au ministre provincial des Finances qu'Ottawa soit désignée comme une municipalité admissible à percevoir un impôt sur les logements vacants et d'inscrire la version provisoire du règlement, suivant essentiellement le modèle du document 3, à l'ordre du jour du Conseil en vue de son adoption, une fois la désignation accordée par la province.**
5. **approuve les coûts de fonctionnement annuels de la prestation du programme d'impôt sur les logements vacants, les coûts de démarrage et les postes permanents à temps plein et à temps partiel, comme indiqué dans le présent rapport.**
6. **affecte les recettes nettes de l'impôt sur les logements vacants à la construction de logements abordables, comme le prévoit le Plan financier à long terme des Services du logement.**

DOCUMENTATION/DOCUMENTATION

1. Joseph Muhuni, Deputy City Treasurer (A), Revenue Services, dated February 17, 2022, (ACS2022-FSD-REV-0001)

   Joseph Muhuni, Trésorier municipal adjoint (T), Recettes, daté le 17 février 2022, (ACS2022-FSD-REV-0001)

2. Extract of draft Minutes, Finance and Economic Development Committee, March 1, 2022

   Extrait de l’ébauche du procès-verbal, Comité des finances et du développement économique, le 1 mars 2022

Subject: RESIDENTIAL VACANT UNIT TAX

File Number: ACS2022-FSD-REV-0001

Report to: Finance and Economic Development Committee on 1 March 2022

and Council 9 March 2022

Submitted on: February 17, 2022 by Joseph Muhuni, Deputy City Treasurer (A), Revenue Services

Contact Person: Krista O'Brien, Program Manager, Property Assessment and PILTs, Revenue, Finance Services Department

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Ward: Citywide

Objet : IMPÔT SUR LES LOGEMENTS VACANTS

Dossier : ACS2022-FSD-REV-0001

Rapport au : Comité des finances et du développement économique le 1er mars 2022

et au Conseil le 9 mars 2022

Soumis le 17 février 2022 par Joseph Muhuni, Trésorier municipal adjoint (T), Recettes

Personne ressource : Krista O'Brien, Gestionnaire de programme, Évaluations foncières et PERI, Recettes, Direction générale des services des finances

613-580-2424, poste 15809, Krista.O'Brien@ottawa.ca

Quartier : À l'échelle de la ville

REPORT RECOMMENDATIONS

That the That the Finance and Economic Development Committee recommend that Council:

1. **Adopt the Vacant Unit Tax (VUT) program outlined in this report starting in 2023 for the 2022 vacancy period.**

2. **Approve a one percent vacant unit tax on the current value assessment of the residential properties that meet the vacant unit tax definition.**

3. **Appoint the Review authority and Program Administrator for the Vacant Unit Tax Program as outlined in this report.**

4. **Direct the Deputy City Treasurer, Revenue Services, to apply to the provincial Minister of Finance requesting Ottawa be designated as an eligible municipality to levy a vacant unit tax and to place the draft by-law substantially in the form attached as Document 3 on an agenda of Council for enactment, following such designation by the Province.**

5. **Approve the Vacant Unit Tax program delivery annual operating costs, start-up costs and permanent and temporary full-time equivalent positions, as outlined in this report.**

6. **Direct the net revenues from the vacant unit tax towards affordable housing as outlined in the Housing Services Long Range Financial Plan.**

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil :

1. **D’adopter le programme d’impôt sur les logements vacants décrit dans ce rapport à partir de 2023 pour la période de l’inoccupation de 2022.**

2. **D’approuver un impôt d’un pour cent sur les logements vacants sur la valeur marchande des propriétés résidentielles qui satisfont à la définition de l’impôt sur les logements vacants.**

3. **De nommer l'organisme d'examen et l'administrateur du programme d'impôt sur les logements vacants, comme indiqué dans le présent rapport.**

4. **D'ordonner au trésorier municipal adjoint, Services des recettes, de demander au ministre provincial des Finances qu'Ottawa soit désignée comme une municipalité admissible à percevoir un impôt sur les logements vacants et d'inscrire la version provisoire du règlement, suivant essentiellement le modèle du document 3, à l'ordre du jour du Conseil en vue de son adoption, une fois la désignation accordée par la province.**

5. **D'approuver les coûts de fonctionnement annuels de la prestation du programme d'impôt sur les logements vacants, les coûts de démarrage et les postes permanents à temps plein et à temps partiel, comme indiqué dans le présent rapport.**

6. **D'affecter les recettes nettes de l'impôt sur les logements vacants à la construction de logements abordables, comme le prévoit le Plan financier à long terme des Services du logement.**

EXECUTIVE SUMMARY

The purpose of this report is to establish the residential Vacant Unit Tax regime in Ottawa in accordance with section 338.2 of the *Municipal Act, 2001.* Staff presented an initial Vacant Unit Tax framework to Council on June 9, 2021, in response to a motion asking staff to study the tax and report back. Council approved the framework and directed staff to continue consulting with stakeholders and develop a final Vacant Unit Tax regime. This report provides the details of the proposed regime.

Proposed Tax Regime

Beginning in 2023, property owners assessed in the residential tax class will be required to declare annually if their property was vacant for over 184 days in the prior year (2022). Principal residences will not be subject to the tax. Residential properties that meet the vacant unit definition will be subject to the 1% tax applied to the MPAC assessment value. The program proposes a number of exemptions that property owners can claim to ensure that certain properties are not unfairly taxed. The exemptions will be available for owners in care, death of an owner, significant renovations, sale of the property, court order, and cottage rentals in rural areas.

Residents will have an opportunity to make their annual vacancy declarations primarily online and through other methods. The annual declaration period will open on January 1 and run through mid-March. An estimated 330,000 residential property owners will need to declare their vacancy status annually. Residents who have not declared their vacancy status by the end of this period will be charged a $250 late declaration fee starting in 2024. They will then be provided with an extended deadline which will expire at the end of April each year. Residents who have not declared their vacancy status by the end of April will automatically be deemed vacant, and the tax will apply. The VUT will be billed on the final property tax bill in May, with a due date in June.

Property owners that believe they should not have been charged the vacant unit tax will have a two-tier appeal process to dispute the charges. The program will also have an audit component to it. Staff will audit declarations for accuracy on an annual basis. Where it is deemed a property was vacant, the tax will apply.

Financial Implications

The VUT program is expected to generate an average of $6.6M annually. The costs to run the program will be deducted from the revenues and the net revenues directed to support Affordable Housing Initiatives in accordance with the Housing Services Long Range Financial Plan.

Public and Stakeholder Input

The initial online consultation done in the winter/spring of 2021 indicated strong support for a vacant unit tax. 77% of the 3,540 survey participants supported a tax on vacant units. Since June of 2021, staff have had ongoing stakeholder consultations with the Ottawa Real Estate Board, the Ottawa Small Landlord Association, Eastern Ontario Landlord Organization, and the Great Ottawa Home Builders' Association. The consultations focused on achieving a suite of exemptions that incentivize owners to occupy their properties and precipitate behaviour change while not unfairly taxing property owners and landlords. The exemptions ensure that owners with valid vacancies are not unfairly taxed.

Implementation

Once approved, staff will engage the Province to request that Ottawa be designated as a municipality in Ontario that can levy the Vacant Unit Tax. Once the required provincial designation is in place, staff will place the final by-law on Council's agenda for approval. A comprehensive communication strategy will begin once the report is approved, as staff expect over 330,000 declarations annually from residents. Inserts will be included in the final tax bill, PSAs and web advertising throughout the fall of this year, as well as targeted mailouts to the impacted property owners. The first vacancy declaration period will open on January 1, 2023, for the 2022 reference year.

RÉSUMÉ

Ce rapport vise à établir le régime d’impôt sur les logements résidentiels vacants à Ottawa, conformément à l’article 338.2 de la Loi de 2001 sur les municipalités. Le personnel a présenté un cadre préliminaire pour le programme d’imposition sur les logements vacants au Conseil le 9 juin 2021, en réponse à une motion demandant au personnel d’étudier l’impôt et de faire un rapport. Le Conseil a approuvé le cadre et a demandé au personnel de poursuivre les consultations avec les intervenants et d’élaborer un régime définitif d’impôt sur les logements vacants. Ce rapport fournit les détails du régime proposé.

Régime fiscal proposé

À partir de 2023, les propriétaires fonciers évalués dans la catégorie d’imposition résidentielle devront déclarer chaque année si leur propriété a été vacante pendant plus de 184 jours au cours de l’année précédente (2022). Les résidences principales ne seront pas assujetties à l’impôt. Les propriétés résidentielles qui répondent à la définition de logement vacant seront assujetties au taux de 1 % appliqué à la valeur d’évaluation de la SEFM. Le programme propose un certain nombre d’exemptions auxquelles les propriétaires fonciers peuvent avoir recours afin de s’assurer que certaines propriétés ne sont pas injustement taxées. Les exemptions seront accordées dans les cas suivants : propriétaires dans les foyers de soins, décès du propriétaire, rénovations importantes, vente de la propriété, ordonnance d’un tribunal et locations à court terme dans les secteurs ruraux.

Les résidents auront la possibilité d’effectuer leurs déclarations annuelles d’inoccupation principalement en ligne et par d’autres méthodes. La période de déclaration annuelle débutera le 1er janvier et se terminera à la mi-mars. On estime que 330 000 propriétaires résidentiels devront déclarer leur état d’inoccupation chaque année. Les résidents qui n’ont pas déclaré leur état d’inoccupation à la fin de cette

période devront payer des frais de déclaration tardive de 250 $ à partir de 2024. Ils bénéficieront alors d’une nouvelle date limite qui expirera à la fin du mois d’avril de chaque année. Si les résidents n’ont pas déclaré leur état d’inoccupation avant la fin du mois d’avril, la propriété sera automatiquement considérée comme vacante, et l’impôt s’appliquera. La facture d’impôt sur les logements vacants sera envoyée en mai, en même temps que la dernière facture d’impôt foncier, et sera exigible en juin.

Les propriétaires qui estiment ne pas avoir dû payer l’impôt sur les logements vacants disposeront d’un processus d’appel en deux étapes pour contester les frais. Le programme comportera également une composante de vérification. Le personnel vérifiera annuellement l’exactitude des déclarations. Lorsqu’il est considéré qu’une propriété était inoccupée, l’impôt s’appliquera.

Répercussions financières

Le programme d’impôt sur les logements vacants devrait générer une moyenne de 6,6 millions de dollars par an. Les coûts de fonctionnement du programme seront déduits des recettes et les recettes nettes seront affectées au soutien des initiatives pour le logement abordable, conformément au Plan financier à long terme des Services du logement.

Commentaires du public et des intervenants

La consultation initiale en ligne effectuée au cours de l’hiver et du printemps 2021 a indiqué un appui très favorable à un impôt sur les logements vacants. En effet, 77 % des 3 540 participants au sondage étaient favorables à un impôt sur les logements vacants. Depuis juin 2021, le personnel a tenu des consultations continues auprès des intervenants, notamment la Chambre d’immeuble d’Ottawa-Carleton, l’Ottawa Small Landlord Association, l’Eastern Ontario Landlord Organization et la Greater Ottawa Home Builders’ Association. Les consultations étaient axées sur l’obtention d’une série d’exemptions qui incitent les propriétaires à occuper leurs propriétés et accélèrent les changements de comportement, sans pour autant faire payer injustement des impôts aux propriétaires fonciers et aux bailleurs. Les exemptions garantissent que les propriétaires pouvant justifier l’inoccupation de leurs logements ne paient pas injustement un impôt.

Mise en œuvre

Une fois l’approbation obtenue, le personnel sollicitera la province pour demander qu’Ottawa soit désignée comme une municipalité de l’Ontario pouvant percevoir l’impôt sur les logements vacants. Après la mise en place de la désignation provinciale requise, le personnel inscrira la version définitive du règlement à l’ordre du jour du Conseil en vue de son approbation. Une stratégie de communication globale sera lancée dès que le rapport sera approuvé, car le personnel s’attend à recevoir plus de 330 000 déclarations par an de la part des résidents. Des feuillets seront inclus dans le relevé d’imposition foncière final et des messages d’intérêt public ainsi que des publicités Web seront diffusés tout au long de l’automne. Des envois postaux ciblés seront également acheminés aux propriétaires concernés. La première période de déclaration d’inoccupation débutera le 1er janvier 2023 pour l’année de référence 2022.

BACKGROUND

Committee and Council Report History

At the City Council meeting on December 9, 2020, Mayor Watson submitted a motion directing staff to study the power to impose a residential vacant unit tax, an analysis of potential revenue and the feasibility and viability of implementing such a tax. Staff reported back to Council on the initial framework on June 9, 2021. Council approved the framework and directed staff to continue consulting with stakeholders while developing the program. This report provides the details of the program.

Affordable Housing

The current state of affordable housing was discussed in detail in the original report. Since the initial framework was presented, neither Statistics Canada nor the Canadian Mortgage and Housing Corporation (CMHC) has released any new data.

The 2016 census data from Statistics Canada showed 1.34 million empty and temporarily occupied homes in Canada, with approximately 22,000 of these located in Ottawa. These vacant homes are a potential source of housing supply. The 2021 census data will be released in September 2022.

According to CMHC, the vacancy levels in Ottawa were 1.6% in 2017 and 2018 and 1.8% in 2019. These rates are much lower than the 3% excess inventory threshold recommended by CMHC. The vacancy rate in 2020 increased to 3.9% due to weaker growth in demand and rising supply. The decrease in demand is thought to be due largely to factors associated with COVID-19, including reduced in-migration, reduced student flows, and changes to the typical living arrangements for both students and young professionals, many of whom have been learning and working remotely since early 2020. Monitoring these trends will be important as the pandemic eventually subsides to determine whether this upward shift in vacancy rates continues. After a review of the data available and discussions with CMHC and Affordable Housing, new statistics for 2021 will not be available for analysis until the end of February or early March 2022. The 2021 CMHC Housing Market Outlook for Ottawa anticipates that the variables impacting the housing market will gradually return to pre-COVID levels over the 2021 to 2023 period and that home sales and prices will continue to grow at a moderate pace, moving away from the unstainable growth experienced in 2020.

In 2020, the average market rents increased by what is considered a robust rate of 5.2% but were lower than the 8% increase seen in 2019. The most significant increase is for three or more bedrooms, which has increased by 20% since 2019 and continues to climb. It is becoming increasingly difficult for moderate and low-income households to find affordable rental housing, especially larger families requiring three or more bedrooms.

Both the federal and provincial governments are aware of the affordability crisis occurring across Canada. All levels of government are working hard to implement various initiatives to assist in combating this situation. In preparation for this report, staff completed an environmental analysis of other policy initiatives in Canada and Ontario. The policy initiatives review findings are summarized in Document 1. The various initiatives also target various niches within the residential and non-residential markets. In order to induce the behaviour change needed to make housing affordable, some of these policy initiatives may occasionally intersect to provide maximum effectiveness. This intersection is evident in Vancouver with the provincial Speculation and Vacancy Tax and the Municipal Empty Homes Tax. Should the federal initiatives be implemented, they would provide a third level of intersectionality in Vancouver for maximum effectiveness.

The vacant unit tax is a tool used globally to lower vacancy rates and promote affordability. The tax is in use in Melbourne, Los Angeles, Oakland, the Republic of Ireland, and Paris. Vancouver was the first City to implement this tax in Canada and has successfully reduced its vacancy levels. Toronto and Hamilton have both recently approved a vacant unit tax as well. This report outlines Ottawa's residential vacant unit tax regime to ensure that property owners remain motivated to return vacant units into the market supply for rent or sale.

DISCUSSION

This report outlines Ottawa's residential vacant unit tax regime and how the tax will work.

The residential vacant unit tax will encourage homeowners to maintain, occupy, sell or rent their properties, increasing the housing supply.

Guiding principles

Staff developed the residential vacant unit tax under the following Council-approved guiding principles:

- Increase the rental housing stock available in the market by influencing the behaviour of property owners.
- Fair and Equitable – the definitions must be fair and equitable in ensuring that it targets the correct units for taxation.
- The residential vacant unit tax program should be implemented with the least administrative burden to the City and its residents.

Provincial legislation

The legislative framework for a residential vacant unit tax is outlined under sections 338.1 to 338.4 of the *Municipal Act, 2001*.

Section 338.1 of the *Municipal Act, 2001,* requires that a municipality be designated through regulation by the Minister of Finance as a municipality that can administer the residential vacant unit tax.

Under section 338.2 of the *Municipal Act, 2001*, designated municipalities in Ontario can impose a tax on vacant residential units that meet the definitions established by the municipality. Council has the authority to pass a by-law to impose a vacant unit tax on the assessed value of a vacant unit in the residential property tax class. The by-law must contain the definition of a vacant unit, the applicable tax rate, the conditions of a vacancy, possible exemptions, rebates of tax, audit and inspection powers and a dispute resolution mechanism. The basic principle is that every vacant unit that meets the definition and is not subject to any exemption would be subject to the tax, which would be arrived at as follows:

Annual Vacant Unit Tax = Vacant Unit Tax Rate x Assessed Property Value

Should Council proceed with approving this report, staff will immediately engage with the Ministry of Finance and provide all the pertinent details of the program, including the draft by-law, to support the designation of the City of Ottawa as having the authority to impose a tax on vacant residential units. Once designated, the by-law will be placed on the Council agenda for enactment, and staff will implement the vacant unit tax regime.

The designation would have to be in place no later than the year in which the tax is imposed (2022).

Benchmarking

Staff reviewed several residential vacant unit tax regimes globally to determine best practices in implementing a successful residential vacant unit tax regime, including the cities of Vancouver, Toronto, Melbourne, Oakland, Los Angeles, Paris and the Republic of Ireland. The City of Melbourne opted for the voluntary declarations, and there have been mixed reviews on its success and the program has been paused due to the pandemic.

In 2021, Vancouver was the only municipality in Canada imposing a residential vacant unit tax (Empty Homes Tax, EHT). The Vancouver model was developed following several years of research and policy development and, so far, has targeted the right groups and successfully reduced the number of empty homes in Vancouver. The EHT program requires residents to declare on an annual basis. Vancouver started with a tax rate of 1% from 2017 to 2019. In 2021, the rate increased to 1.25%, and in 2022, the rate will be 3%.

Toronto's Vacant Home Tax (VHT) was approved in December 2021, and Hamilton submitted their report to Council in February 2022. They both opted for a 1% Vacant Unit Tax rate, an annual mandatory declaration process and a two-step complaint process. Declarations will begin in 2023 for the 2022 period. The Region of Peel submitted a feasibility study on implementing a vacant home tax completed by Ernst & Young to the Regional Council in January. The report recommended that staff design a VHT framework, start public communication, and return to Council with a report after the initial phase. The City of London submitted a preliminary report on the feasibility of a vacant unit tax in London to their Council in January as well, recommending no further action to be taken at this time, but continue to monitor the implementation, execution, and experience of other municipalities in Ontario implementing this tax.

A detailed comparison of these programs is included in Document 2 of this report.

Public Consultation

As part of the initial framework development, staff consulted the public through an online survey. In total, 3,540 participants provided feedback from February 22, 2021, to

April 15, 2021, through an online survey, written submissions and stakeholder conversations. 77% of residents supported the idea of a residential vacant unit tax. Staff summarized the findings of the survey and stakeholder consultation in the "What we heard Report" included with the preliminary residential vacant unit tax report approved by Council in June 2021.

Since June 2021, staff have continued to engage external stakeholders on the implementation of the vacant unit tax. Staff held several working sessions with representatives from the Ottawa Real Estate Board, Greater Ottawa Home Builders' Association, Eastern Ontario Landlords' Organization, and Ottawa Small Landlords' Association. Staff carefully considered the feedback provided and adjusted the initial framework based on consultations where the feedback aligned with the guiding principles. Two main concerns where staff did not make adjustments were an exemption for properties with a site plan application and a broad exemption to Landlords due to delays at the Landlord and Tenant Board (LTB).

The LTB has had significant delays in resolving disputes between landlords and tenants. The delays started prior to the pandemic and were further exacerbated by the pandemic, with parties waiting up to nine months to have their case heard. The estimated delay is currently six months compared to the stipulated timeframe of 30 days. Stakeholders stated that many landlords do not want to rent their properties without a tribunal in place that can expeditiously discharge justice. Stakeholders requested that a broad exemption should be afforded to property owners who chose to keep their properties vacant for this reason. The exemption would be claimed on the honour system. While staff understand the situation, staff do not recommend a broad exemption due to delays at the LTB. The Landlord-Tenant Board is a provincial tribunal, and the City has no jurisdiction over it to take action on its service level. The percentage of rentals that escalate to the Landlord Tenant Board for dispute resolution is small. A majority of tenants have no issues, or parties tend to resolve the matter between themselves. Further, staff would have no way of verifying an exemption claim that a property owner kept their unit vacant because of delays at the LTB. Such an exemption would create an unverifiable loophole that would render the program ineffective. Instead, staff encourage landlords to continue to use the other mechanisms to screen new tenants and resolve disputes.

The second concern was related to site plan applications. Site plan applications can take months to several years to complete depending on their complexity and the amount of consultation required. Property owners may enter a site application to retrofit, renovate, replace or even further expand/change the use of existing residential units. Given the length of time these applications take, stakeholders asked the City to consider an exemption for existing residential properties with a site plan application in place. The exemption would allow these units to sit vacant without attracting a tax until the site plan application is complete. Staff do not recommend an exemption where there is a site plan application. Instead of asking tenants to leave when a site plan application is made, staff propose that property owners could leave these properties occupied during the application process. In addition to keeping the property occupied through the site plan application process, staff have addressed this concern by providing a suite of exemptions that can be used to effectively plan out a project. Specifically, we have proposed exemptions for purchasing property, renovating a property, and an exemption that uses a combination of tenancy and renovation. With planning, the tax may not apply throughout the entire life of the project.

Definitions

The City must identify the properties that would be eligible for the residential vacant unit tax should they meet the definitions of a vacant unit. In accordance with the *Municipal Act, 2001*, only residential homes classified in the residential (RT) property tax class would be subject to the residential vacant unit tax. Vacant residential land in the residential tax class and residential properties with seven or more units assessed in the Multi-Residential and New Multi-Residential classes are not subject to the residential vacant unit tax. Eligible properties include single-family homes, semi-detached homes, townhomes, residential condominiums, duplexes, triplexes, fourplexes, five-plexes, six-plexes and other multi-family homes assessed in the residential tax class. The tax only applies to residential dwellings; therefore, properties in the RT tax class that do not have residential dwellings will be excluded from the annual declarations and the tax. Staff estimate 330,000 units will be required to declare annually. A qualifying property will need to make a status declaration on every municipally assessed unit. A duplex would need two declarations, a triplex would need three, and so on. A complete list of property codes of eligible properties that are required to declare is included in Document 3 (the draft VUT By-law).

The City must also clearly define what constitutes a vacant unit under this regime. Staff propose the following vacant unit definition:

Vacant Unit: A residential unit is considered vacant if it has been unoccupied for an aggregate of more than 184 days during the previous calendar year.

The Vacant Unit Tax By-law will contain specific definitions on a vacant unit, a principal residence, a permitted occupant, and a tenanted unit to ensure clarity and adherence to the rules.

A **Principal Residence** will be an individual's primary residence, where they reside and conduct their daily affairs. A property owner can only have one principal residence. Any property that is a principal residence will be required to declare but not subject to the tax.

Occupied properties are properties used as a principal residence, occupied by the owner or a permitted occupant, or tenanted for a term of at least 30 consecutive days.

Dwellings that meet the vacant definition will be subject to the tax unless they meet the requirements for an exemption. If an owner fails to declare by the late declaration deadline, their property will be deemed vacant and the tax will apply.

Exemptions

In determining which exemptions to consider, City Staff completed in-depth research, engaged with internal and external stakeholders and looked at best practices from Vancouver and Toronto to help define the list of exemptions. Based on these consultations, staff propose the following exemptions:

- **Sale of the property** – The vacancy tax would not apply in the year of sale, provided the transfer is to an unrelated individual or corporation.
- **Death of an owner** – The vacancy tax would not apply in the case of the death of the owner. The exemption applies to the year of death plus the following vacancy reference year.
- **Owner in care** – The vacancy tax would not apply if an owner was in care. A homeowner may find themselves temporarily residing in a hospital, long-term or supportive care facility. There is no time limit for this exemption, provided the homeowner was residing in the care facility during the reference year.

- **Court order** – The vacancy tax would not apply if there was a court order prohibiting occupancy of the property. The exemption would not apply if the conditions or requirements set out in the order were not being pursued by the property owner without unnecessary delays. The exemption would also not apply if the order is due to neglect.

- **Property undergoing redevelopment or major renovations** – The vacancy tax would not apply if a property was undergoing significant renovation or redevelopment, provided a building permit has been issued, and the project is being pursued without unnecessary delay.

- **Cottage rental** – A vacancy tax would not apply in rural zones if the owner has a valid short-term rental permit and the property is rented for more than 100 days in a calendar year.

- **Combined period of redevelopment or renovation and occupation by tenant** – The vacancy tax will not apply if the combined period of construction and tenancy exceeds 184 days combined. Where each exemption would otherwise not qualify on a standalone basis, the exemptions can be combined to achieve the minimum 184-day threshold.

Exemptions are an important component of the VUT tax program to ensure that the program focuses on achieving behaviour change in the right situations. The whole suite of exemptions should be considered when evaluating whether or not a property will be subject to the tax over an extended term.

Tax Rate

Staff recommend a tax rate of 1% of the current year's assessment. Vancouver started with a 1% rate, and Toronto has approved the same. The rate represents approximately a doubling of municipal taxes for the taxpayer in Ottawa if a property is left vacant. Vancouver has since increased its vacant home tax rate to 1.25% and 3%, respectively, following several years of the program.

Mandatory Declaration

All qualifying residential properties must make their declarations annually. Residents who do not report their status to the City would be automatically deemed vacant. This mandatory approach is used in Vancouver and is the approved approach in Toronto.

The preliminary residential vacant unit tax report explored other options such as voluntary disclosures and a complaint-based system, and based on benchmarking data collected, these were shown to be ineffective. In Ottawa, approximately 330,000 residential units will be required to declare annually.

Each year, an owner of a residential class property will have to declare the status of their property to the City. Declarations will be available through Ottawa.ca on the first business day of each calendar year, and the period will be open until the interim tax due date (the third Thursday in March). City staff expect to receive the bulk of declarations online. Properties with multiple units will be required to declare the vacancy status for each unit.

If a declaration is not received by the deadline, a late declaration fee of $250 will apply, and a notice reminding property owners to declare will be issued. This fee is levied to promote compliance with the declaration timeline and reflects the additional administrative costs and manual intervention required with late declarations. Vancouver has a fee of $250. Toronto has approved a late declaration fee of $250. Hamilton and Peel are considering late declaration fees as well.

The late declaration period will be open until April 30th each year. If an owner fails to declare by the late declaration deadline, their property will be deemed vacant, and the one percent tax will apply.

The VUT is a new program and will require a significant amount of public awareness and communications to achieve a high level of annual declaration compliance across 330,000 units in the first year. In recognition of this large change management exercise, staff recommend the implementation of the late declaration fee in the second year (2024). Properties that have not declared their vacancy status by the late declaration date will still be deemed vacant, and the tax will apply. Notices of late declarations will still be sent to ensure property owners are reminded to declare and avoid being deemed vacant.

Staff plan to utilize the City's existing tax billing software to process all declarations received from residents. Staff will review and determine if the property will be subject to the tax. If applicable, the VUT charge will appear on the final tax bills issued at the end of May and due on the third Thursday in June.

For multi-unit properties that only have a portion of the eligible units vacant, their property levy will be proportionally adjusted for the number of vacant units on the property.

The VUT charge is considered a lien on the property and will be subject to the same penalty and interest as property taxes. The collection process will also follow the same process as the annual tax collection process. Staff will ensure that the declaration process is as simple and accessible as possible for property owners.

Dispute Resolution

The *Municipal Act, 2001* requires municipalities to include a dispute resolution mechanism in designing the residential vacant unit tax program. Staff propose a two-tier mechanism for residents who believe they should not have been charged the tax.

<u>Notice of Complaint</u>

The first level is a Notice of Complaint. An owner who has received a vacant unit tax charge on their final tax bill or a supplementary vacancy tax notice can file a Notice of Complaint to the Program Administrator on the grounds of an error or omission by the property owner or the City.

The City may require the complainant to provide additional information to support the complaint. Failure to submit this information may result in a denial of the complaint. Staff recommend that the Program Manager – Revenue Support be appointed as the Vacant Unit Tax Program Administrator.

<u>Request for Review</u>

The second level is available to residents whose Notice of Complaint has been denied. The request for review must be filed to the Deputy City Treasurer, Revenue Services, within 90 days of the denial of the Notice of Complaint.

Communications Strategy

A Public Service Announcement was issued in January 2022 to inform property owners and landlords of a potential vacant unit tax that would apply to the 2022 calendar year and be billed in 2023. This ensures that owners can arrange to have their properties occupied, if necessary, in 2022.

Once City Council approves the program, a media campaign will begin to create awareness and ensure that property owners are informed. In addition, a VUT flyer will be included with the 2022 final tax bills to inform owners that Council has approved the VUT program, including information on the timelines and process for mandatory declaration.

Multiple targeted mailouts are planned to ensure as many property owners as possible are aware of the requirement to declare their vacancy annually starting in 2023. To maximize compliance, staff plan to send notices in November 2022, January 2023, and with the 2023 interim tax bill. This will reduce the number of complaints from property owners who forgot to declare and were charged the VUT. This will be supported by advertising on My ServiceOttawa, online ads and paid social media boosts to maximize outreach.

Short videos will be created and posted on Ottawa.ca to explain the VUT and demonstrate how to complete the declaration form. Detailed program information will also be posted on Ottawa.ca, including FAQs, an explanation of the program, and a list of the exemptions and scenarios to assist clients in understanding if they may be subject to the VUT.

Key messages will emphasize that principal residences will not be subject to the tax.

Estimated Revenue and Program Costs

Vacancy Rate Estimate

Until the program begins and the first annual declaration is in, the City will not have concrete data on how many vacant properties are subject to the residential vacant unit tax. Staff have, however, attempted to estimate the number of properties that would be vacant using various approaches and data sources. These approaches all suggest that the number of vacant properties in Ottawa subject to the residential vacant unit tax would be between 0.5% and 0.75% of the 330,000 eligible units. In Vancouver, 1% of the eligible properties are subject to the tax. Toronto expects the tax to apply to 1% of their units. Using Vancouver's results as a proxy for measurement, staff adjusted the results for multiple factors, such as the balance between condo apartment units and single dwellings. Staff also noted that property speculation has not been as prevalent in Ottawa compared to Vancouver and Toronto. A vacancy rate of 0.5% was deemed appropriate given the demographics and differences of the Ottawa market.

Revenue Estimate

Using a 0.5% vacancy rate, the City estimates net revenues for the first five years of $25 million. The revenue forecast is based on the average residential assessed value of $415,000. Revenues also include an estimated number of late declaration fees annually. Late declaration fees will commence in 2024.

Program Costs

The City will require some permanent and temporary employees immediately after the program is approved to implement the program, deal with public inquiries in response to the awareness campaign and ensure a smooth integration of the tax program. In 2022, the City requires to ramp up its staffing to eight permanent FTEs and one temporary employee. In 2023 and 2024, eight permanent FTEs and five temporary FTEs will be required to deliver the program. The estimated total start-up costs for the first 2.5 years (2022-2024) amount to $3.9M to account for staffing (based on 2022 pay rates), printing, advertising, communications, equipment, IT and AODA compliance work.

In 2025 and onwards, staff anticipate the City's requirement for temporary FTEs to drop, as the public adapts to making annual declarations, and to only maintain the base permanent FTE compliment going forward. The ongoing yearly program operating costs are estimated at $1.4 million and account for staffing (based on 2022 pay rates), printing, advertising and communications. A comparison of program Vacant Unit Tax delivery costs, declarations, revenues and program components between various municipalities in Canada is outlined in Document 2.

Staff recommend that Council approve this FTE requirement and program cost estimates to support the VUT program.

The Vacant Unit Tax program will be funded from the Vacant Unit Tax revenues. The net revenues will be allocated to the affordable housing capital budget and will support affordable housing initiatives outlined in the City's Housing Services Long Range Financial Plan. The VUT revenues will help eliminate the need for additional debt and provide the base funding to meet the City's commitment to the capital component of the 10-Year Plan, as outlined in the Housing Services LRFP.

Table 1 below outlines a summary of the estimated revenues and costs over the first five years of the program.

Table 1 – Estimated Total Vacant Unit Tax Revenues and Program Costs

0.5% Vacancy Rate	Vacant Units	Estimated Revenue ($ millions)	Estimated Program Costs ($ millions)	Net Revenue ($ millions)
Year 0			$0.9	($0.9)
Year 1	1,653	$6.9	$1.6	$5.2
Year 2	1,290	$6.1	$1.4	$4.7
Year 3	1,225	$6.5	$1.4	$5.1
Year 4	1,164	$6.8	$1.4	$5.4
Year 5	1,106	$7.0	$1.4	$5.6
Total		**$33.3**	**$8.1**	**$25.1**

Audits

In order to meet one of the guiding principles, the VUT program is designed to be as efficient and objective as possible. While other exemptions were considered, some were subjective and would be difficult to verify through the audit. By focusing on exemptions with high degrees of objectivity, the audits of the VUT will be more efficient.

An annual audit program will be required to ensure full compliance with the program and that homeowners are not making false declarations. Audits would happen throughout the year, with the first audit starting in July of the first year of billing. Staff will audit multiple applications annually and work with the property owners to ensure the accuracy of the declarations. Where a false declaration is identified, the tax will apply, and the owner will be subject to a fine of up to $10,000. Staff will be able to audit up to two years back. For example, an audit in 2025 could include both the 2024 and 2023 calendar years.

The City will utilize several audit approaches to the select properties to audit each year. These would include, but are not limited to:

- Properties declared occupied that were vacant the year before
- A complaint or tip-based audits
- Non-Arm's Length property transactions
- Random selection audits
- Targeted audit campaigns

The City will staff in-house auditors to execute the audit program. As a result of the audit process, if a property is determined to be vacant, staff will issue supplementary bills for the Vacant Unit Tax. These will be issued each quarter at the beginning of the month with the levy being due at the end of the month. Property owners will be aware of a pending supplementary VUT bill, as staff will have engaged with them, and a notice of determination will be issued prior to the bill declaring the property as vacant.

Confidential financial and personal information collected during the audit process will be handled and stored according to the *Municipal Freedom of Information and Protection of Privacy Act*, the City’s Record Management Policy and best practices on confidential information.

Annual Reporting

Each year, City staff will provide data and results of the program through an annual report. Preliminary data for each vacant unit tax period will be provided in the subsequent year's annual tax policy report. A final report will be released in the second year through the tax policy report. This approach is consistent with how staff currently report on charitable rebates, and vacancy rebates in the past. The final report will detail the amount raised by the vacancy tax, the number of declarations, results of the audit process supplementary billings, and the tax's impact with respect to the number of vacancies in Ottawa.

FINANCIAL IMPLICATIONS

In accordance with the City's 10 Year Housing and Homelessness Plan, capital funding investments are required to support the construction of up to 500 new affordable and supportive units annually. Over ten years, the total estimated municipal share is $198.4 million as outlined in the Housing Services Long-Range Financial Plan (LRFP) approved by Council on March 10, 2021. To fund the City's share of the 10-year capital funding requirement, the annual contribution to the Affordable Housing Capital Program is approximately $15 million. The Plan will be funded by multiple sources, including the VUT. The LRFP estimated that the VUT would generate $1 million annually for the affordable housing capital funding starting in 2023. A revised estimate of funds to be allocated to affordable housing is available in this report. The LRFP includes debt financing in the early years of the Plan, until the base funding is achieved and to supplement in years when other sources of one-time funding are insufficient. Per the financial strategy in the LRFP, any additional funds from other sources of funding, including the VUT, will first be used to reduce the requirement for debt funding in that year until we reach stable ongoing cash funding from all sources at the annual planned funding level. The VUT will provide much-needed support to the initiatives outlined in the City's 10 Year Housing and Homelessness Plan and the LRFP.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report. Part IX.1 of the *Municipal Act, 2001* authorizes designated municipalities to impose a tax on vacant residential units, as described in this report.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a citywide report.

ADVISORY COMMITTEE(S) COMMENTS

There are no Advisory Committee comments.

CONSULTATION

Public Consultation

The preliminary residential vacant unit tax report approved by Council in June 2021 included the results of public surveys and consultations were published. The survey and consultation showed strong public support for the proposed framework and exemptions.

Since June 2021, staff have continued to engage with external stakeholders including, the Ottawa Real Estate Board, Greater Ottawa Home Builders' Association, Eastern Ontario Landlords' Organization, and Ottawa Small Landlords' Association.

Staff also engaged with internal stakeholders to discuss the development of this program and its implications on existing and planned initiatives. The Housing Services Long-Range Financial Plan, the Short-Term Rental By-law, and the Vacant Building Strategy were some key initiatives that were considered in the development of the VUT.

ACCESSIBILITY IMPACTS

Due to the number of properties to declare annually, it will be critical to ensure that the necessary tools are available for all residents to declare on time. Revenue Services will work with ITS partners to develop an online declaration form following the City's Accessible Web policy. All public-facing technologies built in-house or purchased receive are assessed to verify conformance with WCAG 2.0 level AA as required by section 14 of the Integrated Accessibility Standards Regulation 191/11 of the *Accessibility for Ontarians with Disabilities Act, 2005*.

The purpose of a residential vacant unit tax is to create an environment where homeowners are incentivized to have their properties occupied. In addition to being an incentive to property owners, the net revenues from this tax will be used to support affordable housing initiatives directly. As a City, given the affordable housing crisis, any initiative that supports the supply of available rental units could be beneficial to residents with disabilities and their families.

ECONOMIC IMPLICATIONS

While the VUT is not expected to impact Ottawa's economy significantly, this tax is a positive measure to encourage homeowners to occupy their properties or make them available for rent or sale, leading to increased rental availability and a potential decrease in housing costs. An increase in housing supply and lower costs is a competitive advantage in attracting talent, post-secondary students and businesses from jurisdictions with lower supply and higher costs. It also provides Ottawa residents with increased housing options in a heated market with few vacancies, which supports business and employee retention.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications.

INDIGENOUS GENDER AND EQUITY IMPLICATIONS

City Staff performed an environmental scan using an equity lens of potential impacts and implications created by this program. Staff found that this program may assist certain affordable housing issues by providing financial support to affordable housing initiatives and increase the housing supply. The City's Housing programs are often designed specifically with an equity and inclusion lens to allow inclusion and participation of all residents, especially groups most impacted by lack of affordable housing. The City's 10 Year Housing and Homelessness Plan details many programs designed to support the housing needs of groups whose members are most likely at risk of being in a housing crisis. This tax initiative will be one tool available to help.

Following a review of the program, staff confirm there are no diversity and inclusion issues related to this report.

RISK MANAGEMENT IMPLICATIONS

There were several risks identified with implementing a vacant unit tax. The biggest risk is change management. The public has never had to self-declare the status of their properties. The City must build, educate, and integrate a brand-new declaration process for residents. With around 330,000 units required to declare and properties with multiple units required to declare on each unit, there is extensive work to inform, educate and communicate with the public to avoid unintended taxation. The City has detailed its communication plan above to help address these concerns.

Until the program begins and the first annual declaration is in, the City of Ottawa will not have concrete data on how many vacant properties are subject to the residential vacant unit tax. The number of properties that meet the vacancy definitions will drive the revenues received by the City. While Toronto and Hamilton have adopted programs with estimated vacancy rates of 1%, staff are mitigating this risk by estimating a conservative vacancy rate of 0.5% and will adjust the estimates in subsequent years when actual data becomes available.

RURAL IMPLICATIONS

Rural properties are part of the housing supply and will be subject to the vacant unit tax. Seasonal properties mainly found in the rural wards will not be required to declare vacancy annually and will not be subject to the vacant unit tax. The short-term rental by-law only allows short-term rentals in Ottawa in principal residences except for four rural zones where short-term (cottage) rentals are allowed in secondary residences. Principal residences are not subject to the vacant unit tax. In order to ensure that cottage rentals in secondary units were not levied a vacant unit tax, staff have proposed an exemption for cottage rental units in these four rural zones. Owners will need to have a short-term rental permit and proof of at least 100 days of occupancy in a calendar year to get the exemption.

TECHNOLOGY IMPLICATIONS

The technology solution suggested is to provide an internet-based web tool that allows the public to self-serve via a portal on Ottawa.ca to complete a declaration form for their property. There will be no registration required to access the declaration form. The data will be stored in Canada and comply with the *Municipal Freedom of Information and Protection of Privacy Act* to protect citizen data and privacy. The tool will be AODA compliant and bilingual in both official languages.

TERM OF COUNCIL PRIORITIES

The VUT is designed to support thriving communities. In the 2019-2022 City Strategic Plan and Term of Council Priorities, one clear priority was supporting thriving communities through improvements to affordable housing. The VUT is a two-pronged approach through incentivizing property owners to offer more units to the housing supply and to have net revenues directed towards affordable housing programs. The net revenues can be used to support safe, adequate and affordable housing.

SUPPORTING DOCUMENTATION

Document 1 – Review of Public Policy Initiatives

Document 2 – Municipal Benchmarking

Document 3 – Vacant Unit Tax By-law

DISPOSITION

Following Council approval, the Deputy City Treasurer, Revenue Services, will request the Province to designate the City of Ottawa as a municipality that can levy a vacancy tax.

Revenue Services staff will proceed with implementing the program and communicating with the public to promote awareness regarding the new program.

Revenue Services will continue to work with Legal Services to finalize the draft by-law. Following the designation by the Province to implement this report, the Deputy City Treasurer, Revenue Services, in consultation with the City Clerk, shall place the required by-law on the agenda of Council for approval. Revenue Services will report back in the event that the Minister of Finance prescribes any substantive changes to the by-law.