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**REPORT TO ELECTORAL AREAS COMMITTEE
MEETING OF WEDNESDAY, JULY 13, 2022**

SUBJECT **Speculation and Vacancy Tax**

ISSUE SUMMARY

To consider the financial impacts of business licenses, and the costs and benefits of the speculation and vacancy tax (SVT) as applied to Salt Spring Island (SSI).

BACKGROUND

At the February 9, 2022 meeting, the Electoral Areas Committee received a report on the regulation of vacation rentals on the Southern Gulf Islands and SSI, attached at Appendix A. At the meeting, the following motion arising was passed:

That staff prepare a report on the financial impacts of business licenses on Salt Spring Island and Southern Gulf Islands, and the costs and benefits of the speculation and vacancy tax as applied to Salt Spring Island.

Both SGI and SSI are currently exempt from the provincial SVT. The report provided information on the regulatory tools available to local governments to regulate vacation rentals in residential zones by way of zoning bylaws, temporary use permits, and business licensing, all of which can be enforced by ticketing, fines, or court-issued injunction.

ALTERNATIVES

Alternative 1:

There is no recommendation. This report is for information only.

Alternative 2:

The Electoral Areas Committee recommends to the Capital Regional District Board: That the Capital Regional District Board request the Province to include Salt Spring Island in the Speculation and Vacancy Tax specified area to address the problem of electoral area rental and housing affordability.

IMPLICATIONS

Speculation and Vacancy Tax

Between 2018 and 2020, the Province collected \$231M in revenue from the SVT and the Capital Regional District accounted for 8% of the revenue.

| Regional District | 2018 | 2019 | 2020 | Total | Revenue by RD (%) |
|--------------------------|---------------|---------------|---------------|----------------|--------------------------|
| Capital | \$4.3 | \$7.4 | \$7.2 | \$18.9 | 8 |
| Central Okanagan | \$3.5 | \$4.7 | \$4.6 | \$12.8 | 6 |
| Fraser Valley | \$0.6 | \$1.1 | \$2.2 | \$3.9 | 2 |
| Metro Vancouver | \$55.7 | \$71.8 | \$65.5 | \$193.0 | 84 |
| Nanaimo | \$0.6 | \$0.8 | \$1.1 | \$2.5 | 1 |
| Total | \$64.7 | \$85.8 | \$80.6 | \$231.1 | 100 |

There was a decline in revenue in 2020 which was attributed to property owners subject to the tax having sold their properties or changed their behaviour to qualify for an exemption¹.

Property owners for the purpose of SVT are classified as BC Resident, Other Canadian, Satellite Families, Foreign Owner, and Other. Revenue from the classifications are broken down as follows:

| Owner Type | 2018 | 2019 | 2020 | Total |
|--------------------|---------------|---------------|---------------|----------------|
| BC Resident | \$6.2 | \$5.6 | \$11.2 | \$23 |
| Other Canadian | \$5.5 | \$5.2 | \$5.7 | \$16.4 |
| Foreign Owner | \$25.6 | \$34.7 | \$25.6 | \$85.9 |
| Satellite Families | \$18.6 | \$26.2 | \$25.6 | \$70.4 |
| Other | \$1.4 | \$2.7 | \$4.9 | \$9 |
| Undeclared | \$7.4 | \$11.4 | \$7.6 | \$26.4 |
| Total | \$64.7 | \$85.8 | \$80.6 | \$231.1 |

The majority of SVT revenue was from foreign owners with 37% and satellite families with 31%, for a combined total of 68%. The SVT revenue from B.C. residents amounted to 10% and other Canadians amounted to 7%. These figures show that non-B.C. residents are paying most of the SVT.¹

All revenue collected from the SVT must be spent on housing affordability initiatives in the regional district where it is collected. Any SVT revenue are to be used to acquire, construct, maintain or renovate housing or shelter, as well as support other housing-related activities. BC Housing is the primary recipient of funds, but also receives other funding to support government's investments in housing affordability. BC Housing expenditures including those that are under construction or in development between 2018 and 2021 are as follows:

| Regional District | 2018/19 | 2019/20 | 2020/21 |
|--------------------------|----------------|----------------|----------------|
| Capital | \$113.3 | \$135.4 | \$131.6 |
| Central Okanagan | \$66.3 | \$52.2 | \$60.5 |
| Fraser Valley | \$58.4 | \$85.3 | \$68.4 |
| Metro Vancouver | \$647.3 | \$594.3 | \$686.4 |
| Nanaimo | \$49.3 | \$38.6 | \$42.1 |
| Total | \$934.6 | \$905.8 | \$989.0 |

Source: BC Housing

¹ Ministry of Finance – Speculation and Vacancy Tax Act Review of Act and Regulations (June 2022), p.26-27

Intergovernmental Implications

In February 2022 Members' of the Legislative Assembly for Cowichan Valley, North Saanich and the Islands wrote to the Honourable Selina Robins, Minister of Finance, advocating for the expansion of the Speculation and Vacancy Tax within their respective constituencies. Both articulated the need to address the housing crisis within their respective ridings, noting in particular that, "*Salt Spring Island has only 3-7 primary rental units, despite reporting hundreds of short-term vacation rentals*"².

The province has received other requests from areas outside the SVT regions that are interested in opting-in to the tax and will be considering as part of the provincial government's upcoming review of the *SVT Act* and regulations with regard to housing affordability.

Financial Implications of the Speculation Tax

The Ministry of Finance is responsible administering the Speculation and Vacancy Tax by undertaking taxpayer contact services, declaration process support, imposing interest on unpaid STV, registering liens on unpaid taxes, etc. There is no cost to the Capital Regional District.

Business Licensing

As previously reported, Regional Districts have not been granted business licensing authority in the *Local Government Act*. Some Regional Districts, including the Central Okanagan Regional Districts, have requested and been granted business licensing authority to regulate vacation rentals, however, the Province must enable the authority by regulation before a regional district can exercise licensing powers. The *Community Charter* gives municipalities the authority to legislate in relation to a number of broadly stated "spheres of jurisdiction". The regulatory authority is found in Section 8(3) to (6): to regulate, prohibit and impose requirements, by bylaw. Licensing under Section 15 of the *Community Charter* provides for a system of licenses. This includes: providing for the granting or refusal of a license; providing for the effective periods of a license; establishing terms and conditions that must be met for obtaining, continuing to hold or renewing a license, including the nature and terms of those conditions and who may impose them; providing for the suspension or cancellation of licenses for failing to comply with a term or condition or failing to comply with the business licensing bylaw; and providing for reconsideration or appeals of decisions made with respect to the granting, refusal, suspension or cancellation of business licenses.

Short-term vacation rentals are currently regulated through the Islands Trust land use bylaw. Once a vacation rental use is permitted Islands Trust no longer has control over how the specific use is carried out at an individual property level other than controlling the use under a temporary use permit or conditional case-by-case basis. It is in these circumstances where business licenses can be an important companion to help with zoning compliance, by allowing only certain types of businesses to operate in certain areas. Like CRD, Islands Trust can seek provincial authority to have business licensing authority as an additional tool to regulate, prohibit and impose requirements in relation to short-term vacation rentals. Coordinated compliance overseen by one jurisdiction is preferable to having a regulatory scheme where CRD regulates vacation rentals by business license and Islands Trust regulates the same properties/owners by zoning.

Currently, the City of Victoria regulates short-term rentals where permitted under the City's zoning regulation to protect availability and affordability of long-term rentals. To operate a short-term rental in Victoria for stays of less than 30 days, an operator must have a short-term rental business

² <https://islandstrust.bc.ca/wp-content/uploads/2021/02/2020-11-26-housing-needs-report-ssi-final.pdf>

license and comply with operating requirements. The City of Victoria can impose a \$500 per day fine for operating without a short-term rental business license. While the fines are significant, the cost of enforcement or collection of fines usually ameliorates any revenue that can be generated by fines.

Financial Implications of Business Licensing Authority

A business license function for Salt Spring Island would require new funding for administration, overhead and a part-time bylaw enforcement officer. There would also be additional legal costs for court proceedings to enforce against businesses operating without a license, or to respond to administrative court challenges where a business license is revoked or suspended. Enforcement proceedings would be necessary to ensure the regulatory authority is upheld and complied with.

| Business License Function | Part-time |
|----------------------------------|------------------|
| Business License staff | \$45,500 |
| Administration | \$6,800 |
| Allocations | \$2,300 |
| Subtotal | \$54,600 |
| Vehicle (One-time cost) | \$50,000 |
| | \$159,200 |
| Revenue | |
| 225 businesses @ \$100/licence | (\$22,500) |
| TOTAL | \$136,700 |

CONCLUSION

Short-term vacation rentals can be regulated by land use bylaws or through business licensing. CRD does not currently have the authority under the *Local Government Act* to regulate business. Under the *Islands Trust Act*, Local Trust Committees (LTCs) have land use authority to regulate short-term vacation rentals. LTCs can permit or prohibit vacation rentals outright in accordance with zoning requirements within land use bylaws. While land use bylaws can be effective in regulating vacation rentals and are relatively simple to enforce, there are some limitations due to the fact that land use bylaw provisions are typically general and permissive in nature, rather than site-specific. It may be an option for the Islands Trust to explore additional enabling authority to regulate short-term rentals through business licensing where permitted under their land use authority to protect long-term rental and rent affordability challenges, which could then be applied throughout the Trust area.

RECOMMENDATION

There is no recommendation. This report is for information only.

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| Submitted by: | Karla Campbell MBA, BPA, Senior Manager, Salt Spring Island Electoral Area |
| Concurrence: | Robert Lapham, MCIP, RPP, Chief Administrative Officer |

ATTACHMENT

Appendix A: Regulation of Vacation Rentals on the Southern Gulf Islands and Salt Spring Island