

# Cost Estimate of Election Campaign Proposal

Publication date:	2019-09-25	
Short title:	Foreign Real Property Buyer Tax	
Description:	Introducing a 15% additional sales tax on the sale of residential property located anywhere in Canada to a foreign national, foreign corporation or taxable trustee. The intended date of implementation is October 22, 2019.	
Operating line(s):	Goods and Services Tax	
Data sources:	<u>Variable</u>	<u>Source</u>
	Value of sales of residential housing (sales)	CREA
	Tax collected on sales to foreign buyers	Ministry of Finance, ON; DataBC
	Foreign Ownership Rate	PBO Calculations; CMHC
	Residential Investment	PBO EPC Baseline
	Administrative Costs	PBO IR419
	Federal Employee Personnel Growth Rate	PBO EPC Baseline
Estimation and projection method:	<p>The cost estimate is based on an approximation of the tax base using CREA data to calculate the sales of residential housing in Canada. The estimated share of sales to foreign buyers was calculated based on actual data from BC and ON, and information on foreign ownership from CMHC. Growth in sales was projected based on the historical relationship between growth in sales and residential investment combined with PBO's baseline projection of residential investment. The share of foreign sales was then adjusted for a behavioural response which was inferred from changes in the Vancouver housing market. Based on an estimate of the share of the value of foreign buyers in BC just prior to the implementation of the tax in 2016 and following implementation in 2017, an approximate elasticity of demand of -3.2 was calculated. Sales to Canadian purchasers were assumed to be unaffected following the introduction of the measure.</p> <p>A 15% tax was then applied to projected sales to foreign buyers.</p> <p>Administrative costs of collecting this information and taxes were based on the estimated costs for the Canada Revenue Agency to implement the fuel charge. These costs were projected to grow in line with projected federal employee personnel spending as projected by the PBO's baseline projection.</p>	
Uncertainty assessment:	<p>The cost estimate has high uncertainty. There are no available data on transactions of residential property in Canada except for the Greater Vancouver and Greater Toronto regions, where a similar tax has been implemented. In addition, there is a large degree of uncertainty surrounding the assumed behavioural response.</p>	

### Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total cost	-142	-318	-333	-349	-362	-378	-397	-415	-432	-448

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost