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Assessing the British Columbia Flipping Tax

A key pillar of B.C. Budget 2024 was the release of details regarding the flipping tax, which was first announced in Budget 2023 and the Homes for People Plan. The flipping tax will be tabled in Spring 2024 with an effective date of January 1, 2025.

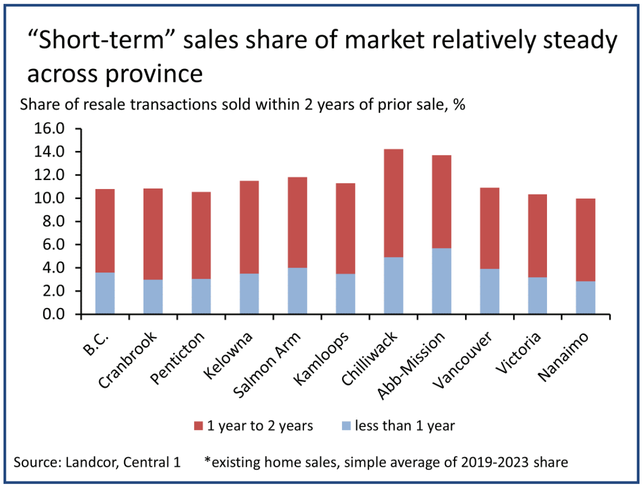
A flipping tax of 20 per cent on profit will apply if a residential property is resold in the first year (up to day 365) and a linear run off through year two (day 730), reaching zero tax if sold after two years. This is a tax on housing units and properties zoned for residential use, and income on assignment on contracts. The tax applies to contract assignments and there are broad exemptions related to job relocation, involuntary job loss, growth in households, death, disability, insolvency, and other factors. The list of exemptions is quite exhaustive with actual flipping activity likely to be a small portion of the market activity.

This tax is anticipated to generate $11 million in 2024/25 and $43 million in 2025/26.

This note assesses the potential upper bound of flipping activity based on resale market data provided through land title transfers via Landcor. There is limited data for contract assignments.

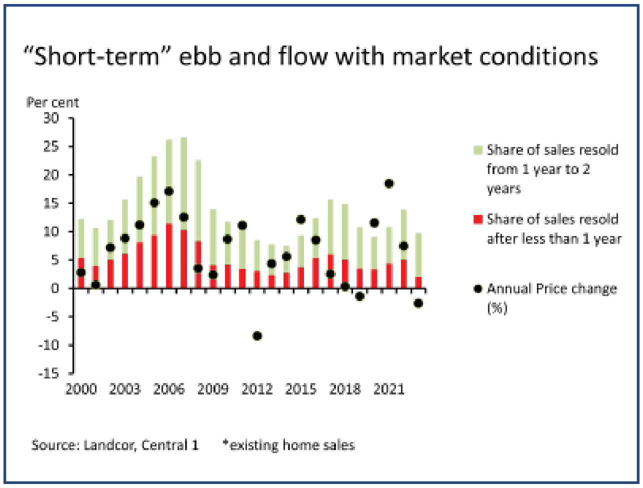
How many property sales may be impacted?

In the sense of “flipping” as a speculative activity, we do not know, as many units sold within two years fall within the exemptions noted. We can however estimate what the upper bound is given land title transfer data and the share of sales that previously sold within two years of the latest transaction date. From data spanning 2019-2023 this share of sales in B.C. represented about 11 per cent of total sales, with some fluctuation throughout the period. The share of total sales representing properties resold within one year of previous purchase fell to 3.7 per cent. This is not surprising, the likelihood of a home being resold rises with time due to household lifecycle considerations, and other factors, while some investors may delay selling for the first year for tax purposes.



Apartment condominiums in B.C. have a much higher rate of being resold in the first two years than detached homes. Over the same period, the ratio of condominium apartments resold within two years to total apartment units was closer to 15 per cent, compared to about 7 per cent for detached homes. Condominiums are more likely to be transition homes as households move to larger properties when able and are more likely to be investment vehicles, either short- or long-term. About 5 per cent of apartment condominium sales were resold within the first year of purchase.

Surprisingly, a scan of municipal regions does not show substantial differences among the largest urban markets over the past two years. The share of resales within two years in Metro Vancouver was 11 per cent in 2023, which was consistent with levels seen in areas like Cranbrook, Kelowna, and Victoria.



Tax could delay sales, hamper long-term supply

The flipping tax on resale transactions is unlikely to have much of an impact but could marginally curb sales once implemented. The breadth of exemptions to the tax is wide and looks to cover major household events such as divorces, births, relocations, and other factors which should cover most sales. Indeed, given the costs of implementation, it is unclear how much net benefit this has for the government, outside of messaging the goal of hitting all housing policies.

That said, owners looking to sell will choose to delay their sales to the two-year point if home values have risen. This will be the case in January 2025 as the average MLS® price in the province is up about 10 per cent from January 2023, although driven by sales composition with a mix of price trends among markets. For several regions, the flipping tax will have no impact in January as prices are flat or down from early 2023, and sales delays are more likely in the Lower Mainland and parts of the Okanagan.

While we anticipate negligible impact in the coming year from the flipping tax, the magnitude of short-term sales is not constant and ebb and flow with market conditions and could dissuade or delay short-term sales in the future. Our same data suggests units sold within 2 years of previous purchase represented more than 20 per cent of sales (30 per cent of apartment condominiums) from 2005 to 2008 and about 15 per cent in 2017 and 2018. That said, while representing higher water marks in price cycles over the year, we do not see flipping as the cause of the price increase but a reflection of market conditions.

There is greater uncertainty around what this means for new housing supply and condominium products. The tax also applies to the profits from assignment sales, but it is unclear on how the tax will be implemented and when an assignment contract is deemed live. This uncertainty will dissuade investors in the pre-sale market which could be problematic as these projects may require up to 60 per cent of units to be pre-sold to move forward. Investment in pre-sales with expectation to assign properties provides needed at-risk capital and liquidity to move projects forward. Delays in pre-sale sell-through will delay project construction and further add costs which would surely be an unintended consequence of the policy.

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