# Vacant Land Taxation Disincentives

Discussion Paper for Village of Carmacks Council
February 2024

## 1.0 Introduction

Under its current Housing Accelerator Fund Contribution Agreement, the Village of Carmacks has committed to exploring taxation and other disincentive approaches to spur development of vacant lots and construction of housing forms other than single family residences. The following paper looks at what is happening in other parts of Canada, as well as Carmacks itself, and makes recommendations for Council's consideration.

## 2.0 Cross-Jurisdictional Scan – Vacant Land

In Canada, the taxation of vacant undeveloped land often depends on its property classification and assessment valuation, rather than a separate "punitive" tax rate. However, some jurisdictions are moving toward direct vacancy taxes for land.

### Yukon

*City of Dawson*

As of the 2023 *Taxation of Vacant Residential Lands Policy*, the City now imposes a specific minimum tax on vacant residential land to encourage development. The minimum tax on vacant residential property for 2023 was $1600; this is almost double the minimum for residential ($840).

The general tax rate is applied to the property's assessed value; however, the vacant residential land tax includes a higher minimum amount that applies if the calculated percentage of value is less than the minimum. The policy applies to properties that have remained vacant for five years or longer since the time of final subdivision. The property reverts to the residential tax rate if (or when) physical housing construction (foundation completed with an active development permit) has occurred by December 31st of the tax year in question.

*City of Whitehorse*

Whitehorse does not have a specific vacant land tax at present; the closest is the Vacant and Unoccupied Buildings Bylaw, which is aimed more at public safety than spurring development.

### British Columbia

*Province of British Columbia*

BC Assessment has the authority to assess land at its development potential rather than existing use. In practice, it can classify vacant land zoned for residential use as Class 6 (Business and Other) until a specific use is realized. This practice means that vacant residential land is taxed at a much higher rate than active, or occupied, residential land in numerous BC municipalities, including Surrey, West Vancouver, Kelowna, Coquitlam, and Vancouver.

Many BC municipalities do not have a separate land-only taxation rate.

*City of Vancouver*

Vancouver has authority under the *Vancouver Charter* to set higher tax rates on vacant land. Its current *Empty Homes Tax* applies to vacant properties designated for residential use. The tax is 3% of the property's assessed taxable value, about 10 times higher than the standard tax rate.

### Alberta

*Province of British Columbia*

Vacancy taxes are technically not allowed in Alberta; however, subclasses can be taxed with different rates under the *Municipal Government Act*.

*St. Albert*

The City of St. Albert has a specific Vacant Residential Land Tax Rate that is about 24% higher than the normal developed residential municipal tax rate. The higher rate applies only to residential lots that have remained vacant for 7 or more years.

### Federal

In the 2024 budget, the Government of Canada announced that it is considering a tax on vacant residentially zoned land. The government conducted public consultations on this proposal from October to December 2024 and is currently exploring a model to support implementation at provincial and municipal levels, rather than a single federal tax.

## 3.0 Cross-Jurisdictional Scan – Single Residence Tax Differentiation

The online literature review showed that there is currently little precedent for taxing single family residences at a higher tax rate to discourage lower density development. In fact, it confirmed that there is a legacy of inequitable taxation in which multi-residential properties, and apartment buildings in particular, are subjected to much higher taxes than other forms of housing. For examples, many Ontario municipalities have historically levied a 50% to 250% higher rate as compared to single family homes. It does appear that some municipalities are looking to adjust this to restore equity to the housing market and forms of ownership.

In the meantime, two current provincial examples were found.

*Province of British Columbia*

The province incorporates the principle of "Highest and Best Use" in its assessment methods. This can apply to single family residences that are in zones that allow for higher density. The value of a single residence can be assessed based on the value of a higher density building that could theoretically be there under current zoning.

*Province of Ontario*

Assessment is based on the Municipal Property Assessment Corporation (MPAC) using the Direct Comparison Approach. If a vacant lot is zoned for high density residential, its value is compared to recent sales of similar development sites, effectively taxing it at its highest potential value.

## 4.0 Carmacks – Current Taxation Status

The current tax rate for residential properties in Carmacks is 1.5%; this applies to both developed and vacant lots. Applied to the Government of Yukon Property Assessment Branch's assessed values, the tax burden for a modest residence assessed at $100,000, inclusive of land and improvements, amounts to $1500 annually. Due to the very low land values in Carmacks, the tax burden for the same vacant residential lot would be around $150 annually (assuming an average townsite lot is assessed at $10,000).

The minimum tax in Carmacks for 2023 was $250 for all taxable Residential and Non-Residential/Commercial properties.

Currently, there is no differentiation in the tax bylaw between single family or multi-unit residential.

Under the Yukon *Assessment and Taxation Act*, property assessment policy and implementation are the sole jurisdiction of the Government of Yukon. Municipalities such as Village of Carmacks have no influence over assessments to disincentivize low density development or vacant land holdings.

## 5.0 Conclusion and Recommendations

The most relevant example of vacant land taxation disincentives is the policy enacted by the City of Dawson in 2023. Given that taxation rates are established in the annual *Municipal Taxation Rate Bylaw*, Village of Carmacks Council already has a legislative mechanism in place to achieve the same outcomes: higher taxes for vacant land. City of Dawson Council discussed the issue for many years before adopting its policy; as such, property owners had some advance notice before the change was implemented.

The Village of Carmacks *Zoning Bylaw* is permissive of housing in key non-residential zones (i.e., Commercial, Industrial) where private ownership is predominant (unlike other zones such as Hinterland, Parkland, Airport, and Community Use). As such, vacant Commercial and Industrial properties also contribute to the shortage of housing in Carmacks and should be included in any taxation measures.

To allow Carmacks residents to adjust to higher taxes, and the Village to monitor the effect of taxation measures on building and sales activity, the following graduated approach is recommended:

- 2024 – Create a new separate category of "unimproved/speculative/vacant" real property (regardless of other designation) and:
    - levy a 2% taxation rate on it (compared to 1.5% for Urban Residential and 1.45% for Country Residential); and
    - increase the minimum tax to $400 for all residential and commercial properties and $350 for all other properties.

- 2025 – Undertake an analysis of the number of vacant residential properties in Carmacks and potential financial implications (to both Village and individual property owners) of imposing a higher minimum tax on these properties.
- 2026 – As determined by the 2025 analysis, consider increasing the minimum tax for Unimproved/Speculative/Vacant real properties to **two times** the minimum tax for Residential and Non-Residential/Commercial real properties (or $800).
- 2027 – No change
- 2028 – Consider increasing the minimum tax for Unimproved/Speculative/Vacant real properties to **three times** the minimum tax for Residential and Non-Residential/Commercial real properties (or $800).
- 2029 and beyond - monitor building permit trends over the past five years (including post-HAF) and determine if additional increases are necessary.