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Policy Forum: Revisiting the Principal Residence Exemption and Public Support for Reducing the Home Ownership Tax Shelter

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PRÉCIS

Cet article examine brièvement les multiples incitatifs culturels et économiques problématiques que génère l'exemption pour résidence principale (ERP) aux fins de l'impôt sur les gains en capital. Il met en évidence plusieurs défis qui se posent lors de la révision de l'ERP en tant que stratégie visant à réduire l'abri fiscal qu'elle crée pour l'accession à la propriété, *si* de tels changements sont présentés comme principal mécanisme pour remédier à l'inégalité et à l'inabordabilité produites par des décennies d'inflation immobilière. L'auteur fait plutôt remarquer qu'il serait désormais plus judicieux de remédier à ces préjudices en ajoutant de la progressivité à l'impôt foncier annuel. Quel que soit le levier politique privilégié, un changement de politique est nécessaire pour réduire l'abri fiscal pour l'accession à la propriété. La majeure partie de l'article examine les données de février 2022 relatives à l'opinion publique canadienne pour trouver des preuves du soutien du public à ce changement de politique. Ces données révèlent un soutien public plus important que ne le sous-entend souvent le discours politique canadien.

ABSTRACT

This article briefly reviews multiple problematic cultural and economic incentives generated by the principal residence exemption (PRE) from capital gains taxation. It identifies several challenges that arise in revising the PRE as a strategy to reduce the home ownership tax shelter that it creates, *if* such changes are presented as a primary mechanism to address the inequality and unaffordability produced by decades of previous housing inflation. The author observes that such harms would now be better addressed by adding progressivity to annual property taxation. Regardless of what policy lever is preferred, policy change is required to reduce the home ownership tax shelter. The majority of the article examines Canadian opinion data from February 2022 for evidence of public support for this policy change. These data reveal more public support than is often implied in Canadian political discourse.

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KEYWORDS: HOME OWNERSHIP ■ TAX SHELTERS ■ PRINCIPAL RESIDENCE ■ CAPITAL GAINS ■ PROPERTY TAXES ■ PUBLIC OPINION

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INTRODUCTION

It is now half a century since the government of Canada made its most significant tax policy decision about housing. In 1972, it created, in effect, a home ownership tax shelter by excluding principal residences when the taxation of capital gains was launched. With average home prices rising in the decades since, and at an accelerating rate, especially after the year 2000, many owners have enjoyed substantial gains in the value of their principal residences, largely tax-free. Homes do not even need to be sold to access the tax-sheltered wealth gains, because home equity lines of credit are now common in the finance industry.[1]

The following commentary on the principal residence exemption (PRE) is organized in three parts. I begin with a brief review of problematic incentives that the PRE creates as it relates to housing wealth inequality, affordability, and economic efficiency. I then identify several challenges that would have to be addressed if the PRE were eliminated now as a primary way to address the inequality and unaffordability produced by decades of previous housing inflation. Finally, I present a detailed examination of recent opinion data to determine whether there is evidence of public support for reducing the home ownership tax shelter. These data reveal that there is considerably more public support than is often implied in the world of Canadian politics.

PROBLEMATIC INCENTIVES CREATED BY CANADA'S MOST COSTLY HOUSING EXPENDITURE

The PRE is a large, formal tax expenditure; the Department of Finance estimates the cost to the federal government of the exemption of principal residences from capital gains taxation at approximately $10 billion for 2022.[2] Since provinces determine their

1 Paul Kershaw, "Canada's Tax System Fuels a Cultural Addiction to High and Rising Home Prices" (2022) 3:3 *Perspectives on Tax Law & Policy* 1-5.

2 Canada, Department of Finance, *Report on Federal Tax Expenditures: Concepts, Estimates and Evaluations 2022* (Ottawa: Department of Finance, 2022), at 36.

income taxes on the federal base, the home ownership tax shelter yields corresponding losses to provincial coffers. However, neither federal nor provincial tax expenditures are mentioned in the government of Canada's national housing strategy (NHS)[3] —a surprising omission given that their cost is far larger than any other annual spending committed under the NHS.[4]

The PRE inclines many Canadians to bank on rising home prices for their savings. Tax policy encourages them to think this way, because the income earned by Canadians from paid work, as well as the returns earned on investments in the stock market, are taxed more than the wealth that homeowners gain from the rising value of their home. The preferential tax treatment of home ownership gives Canadians an incentive to organize their wealth accumulation plans to capitalize on rising housing prices, as observed by an extensive literature on the effects of such tax policies internationally[5] and in Canada.[6]

A consequence of this type of tax incentive is the perpetuation of a harmful cultural orientation in Canada that tolerates (and perhaps even welcomes) the large and growing gap between home prices and earnings, on the ground that it contributes to returns on investment. For example, the annual budgets of the BC and Ontario governments routinely claim that the housing market is "strong" as home prices rise, even as these rising prices erode affordability.[7] Similarly, media coverage frequently refers to the housing market as "hot" when home prices are rising to levels that leave earnings behind.[8]

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3 Department of Employment and Social Development Canada, *Canada's National Housing Strategy: A Place To Call Home* (Ottawa: Department of Employment and Social Development Canada, 2017) (https://assets.cmhc-schl.gc.ca/sf/project/placetocallhome/pdfs/canada-national-housing-strategy.pdf).

4 In addition to the cost of the PRE, as reported annually by the Department of Finance for budget purposes, economists calculate "imputed rent" for homeowners as part of the national accounts system. Imputed rent refers to the rent that homeowners would pay as tenants of a home equivalent to the one they own. When imputed rent is included as an untaxed flow of income, the argument that homeowners receive preferential tax treatment is further strengthened.

5 See John Freebairn, "Taxation of Housing" (2016) 49:3 *Australian Economic Review* 307-16; Anthony O'Sullivan and Kenneth Gibb, "Housing Taxation and the Economic Benefits of Homeownership" (2012) 27:2 *Housing Studies* 267-79; and Sang-Wook (Stanley) Cho and Johanna L. Francis, "Tax Treatment of Owner Occupied Housing and Wealth Inequality" (2011) 33:1 *Journal of Macroeconomics* 42-60.

6 Robin Boadway, "Tax Policy for a Rent-Rich Economy" (2015) 41:4 *Canadian Public Policy* 253-64.

7 See, for example, British Columbia, Minister of Finance, 2022 Budget, Budget and Fiscal Plan, 2022/23-2024/25, February 22, 2022, at 101; and Ontario, Ministry of Finance, 2022 Budget, April 28, 2022, at 154.

8 See, for example, Theophilos Argitis and Erik Hertzberg, "Higher Rates Start To Cool Canada's Hot Housing Market," *BNN Bloomberg*, April 19, 2022 (www.bnnbloomberg.ca/higher-rates-hit-canadian-housing-market-with-sales-down-5-4-1.1753858).

Several commentators have also raised economic efficiency concerns about the PRE, observing that tax policy that shelters housing wealth from taxation accelerates investment in real estate at the expense of capital investment in more productive sectors,[9] including those that generate more employment. This concern is relevant in Canada given that the real estate sector (including the rental and leasing of property) represents 14 percent of the nation's gross domestic product (GDP), whereas just 2 percent of Canadians make their living in this industry.[10]

The implications of these data are worrisome. They show that Canada has been growing GDP by ramping up the value of most people's major cost of living—housing—without growing jobs in that sector in numbers that ensure that earnings keep pace with housing inflation. Existing homeowners (including me) gain (untaxed) equity from this economic approach. By comparison, almost everyone else (save the relatively small number of people employed in the real estate sector) gains less from their hard work because full-time pay in other industrial sectors does not keep pace with rising home values.

Problematic cultural and economic incentives generated by the PRE should motivate Canada to revisit its approach to the taxation of housing wealth. The Canada Mortgage and Housing Corporation (CMHC), as part of its responsibility for administering the NHS, responded recently to such calls by exploring this theme in its inaugural "Directed Solutions Lab," titled "Wealth and Generational Inequity in Canadian Housing."[11] The CMHC funded this work in partnership with Generation Squeeze, an innovative university-community collaboration that I lead. The lab engaged more than 80 stakeholders in a search for policy solutions to disentangle Canadian households from counting on high and rising home prices for their future savings. Tax policy considerations were part of our deliberations.

Unfortunately, recent efforts to revisit the strengths and weaknesses of the incentives created by the PRE have been politicized in an inaccurate and unproductive way. At the federal level, spurred on by an anti-tax lobby[12] and a misleading media report,[13] the Conservative Party of Canada accused the incumbent Liberal government of

9 See Gavin Wood, Rachel Ong, and Melek Cigdem, "Housing Tax Reform: Is There a Way Forward?" (2016) 35:4 *Economic Papers* 332-46; Essi Eerola and Niku Maattanen, "The Optimal Tax Treatment of Housing Capital in the Neoclassical Growth Model" (2013) 15:6 *Journal of Public Economic Theory* 912-38; and Alan W. Evans, "Optimal Tax Theory and the Taxation of Housing in the US and the UK" (2012) 29:4 *Journal of Property Research* 368-78.

10 Kershaw, supra note 1, at figure 2.

11 Canada Mortgage and Housing Corporation, "Wealth and Generational Inequity in Canadian Housing," July 7, 2021 (www.cmhc-schl.gc.ca/en/nhs/nhs-project-profiles/2018-nhs-projects/disentangling-canadian-households-counting-high-rising-home-prices).

12 Kris Sims, "SIMS: Feds Still Studying Home Equity Tax," *Toronto Sun*, April 24, 2022 (https://torontosun.com/opinion/columnists/sims-feds-still-studying-home-equity-tax).

13 Blacklock's Reporter, "Feds Eye Home Equity Tax," July 17, 2020 (www.blacklocks.ca/feds-eye-home-equity-tax).

"secretly" pursuing an agenda to tax "home equity."[14] In British Columbia, the BC Liberal Party has levied a similar charge at the incumbent New Democratic Party government.[15] These accusations often place my research, and the Directed Solutions Lab funding that I received from the CMHC, at the centre of hostile politicized debate about the PRE.

Reducing the PRE is not the first or the best step in adapting tax policy to begin addressing the housing wealth inequalities and unaffordability challenges created by our housing system over recent decades. In a previous article in this journal,[16] I argued that a better policy response would be to implement an annual (deferrable) progressive surtax on the value of principal residences above $1 million. This proposal has since been revised by a working group of tax scholars and housing experts.[17] Our proposal could be implemented by either federal or provincial governments, adding progressivity to existing annual property taxation by adding a new tax bracket to the assessed base, relying on existing provincial assessment systems to determine home values. For the minority of Canadians whose principal residence is valued at more than $1 million, we propose a small fee starting at 0.2 percent of the value between $1 million and $1.5 million, rising to 0.5 percent of the value between $1.5 million and $2 million, and peaking at 1 percent of the value above $2 million. Payment could be deferred (with interest) until the home is sold or inherited. This design detail would guard against disrupting people who are house-affluent, but cash-constrained.

ARGUMENTS AGAINST ELIMINATION OF THE PRE

While I regret that principal residences were originally exempted from capital gains taxation, fixing the problem a half-century later by eliminating or reducing the exemption is fraught with challenges. Elimination of the PRE only for housing purchases as of today would shelter the wealth created from rising home values over the

14 See Jonathon Gatehouse, "The Conservatives' Misleading Claims About a 'Secret' Liberal Housing Tax," *CBC News*, October 8, 2019 (www.cbc.ca/news/politics/the-conservatives-misleading-claims-about-a-secret-liberal-housing-tax-1.5312873); and Carlito Pablo, "Canada Real Estate: House of Commons Petition Says Tax on Home Equity Will Punish Millions of Residential Owners," *Georgia Straight*, September 3, 2020 (www.straight.com/news/canada-real-estate-house-of-commons-petition-says-tax-on-home-equity-will-punish-millions-of).

15 BC Liberal Party, "Tell John Horgan: No New Tax on Home Equity," *Facebook post*, July 28, 2020 (www.facebook.com/BCLiberals/photos/a.10150149569645483/10163932248845483/?type=3).

16 Paul Kershaw, "Policy Forum: A Tax Shift—The Case for Rebalancing the Tax Treatment of Earnings and Housing Wealth" (2018) 66:3 *Canadian Tax Journal* 585-604.

17 Paul Kershaw, *Wealth and the Problem of Housing Inequity Across Generations: A Solutions Lab* (Vancouver: Generation Squeeze Lab, 2021), at section 6 (https://d3n8a8pro7vhmx.cloudfront.net/gensqueeze/pages/6403/attachments/original/1639772589/GenSqueeze_Nov26.dat).

last five decades. This approach would thereby fail to address many of the wealth inequalities that motivate calls to review the taxation of housing wealth in the first place. Instead, elimination of the PRE would need to apply retroactively in order to tax the housing wealth produced by previous housing price inflation. However, many will question the fairness of applying a tax policy change to earlier purchases, and understandably so.

Even if we set aside concerns about the retroactive application of a tax change, retroactive elimination of the PRE would quickly run into a number of horizontal inequities. For example, many home equity gains reflect wealth accumulation over the last decades whether (1) the homeowner has been in the same home purchased decades ago, or (2) the homeowner purchased the current home very recently by drawing (partly) on capital acquired from price escalation that accrued in homes previously owned. Capital gains taxation imposed retroactively would likely tax scenario 1 far more heavily than scenario 2. The only way around this horizontal inequity is to apply the elimination of the PRE not just to the date of purchase of the current principal residence, but to a previous date in time and include all purchases of principal residences made thereafter. Beyond the many administrative challenges involved, this approach likely would become mired in debate about how far back in time one should go, unless we choose 1972—the initial year in which the home ownership tax shelter was created.

By contrast, adding a progressive surtax to existing annual property taxation would treat scenarios 1 and 2 equally. The surtax would collect additional tax revenue from Canadians owning the most valuable homes—many (but admittedly not all) of whom will have accrued this wealth as a result of previous housing price increases. The fact that this policy can capture wealth generated from previous purchases while being implemented on an ongoing basis increases its political acceptability, reduces concerns about fairness, and adds simplicity.

The advantage of simplicity should not be overstated. Eliminating the PRE to address the commodification of principal residences that it encourages would require the dramatic expansion of a complex system to measure and audit the capital "gain," because investments in any home improvements would need to be subtracted from the home's market value at the time of sale. While the "adjusted base cost" must already be calculated and audited on the sale of secondary properties in Canada, this applies to only one in six of the 70 percent of Canadians who are homeowners—the share who own multiple properties.[18] To eliminate the PRE, the Canada Revenue Agency would need to expand its audit system to capture the home sales of all 70 percent of Canadians who are owners. By contrast, adding a surtax to property taxation is simpler to implement because it can rely entirely on existing provincial infrastructure that already measures home values for the purpose of calculating annual property taxes.

18 Daniel Wong, "Landlord Nation: Over 1 in 6 Canadian Homeowners Own Multiple Properties," *Better Dwelling*, April 12, 2022 (https://betterdwelling.com/landlord-nation-over-1-in-6-canadian-homeowners-own-multiple-properties).

Notwithstanding the horizontal inequity problems in just eliminating the PRE, along with the administrative complexities introduced by doing so, one might rightly argue that elimination of the PRE could work on an ongoing basis in parallel with the deferrable progressive annual surtax on home value that I and others propose. The surtax would address housing wealth inequities created by past purchases for which the value has been driven up by previous housing inflation. Adopted together with a capital gains tax applied prospectively, current tax incentives that attract investment in real estate would be eliminated, and Canadian tax policy would be repositioned to discourage such investment by comparison with the taxation of other industries. Some scholars and commentators may judge that the combination of these tax policy changes would serve the goal of accelerating capital investment in sectors of Canada's economy that are more likely to grow well-paid jobs at scale, and enhance productivity. Simultaneously, revenue from one or both changes could be used to invest in deeply affordable purpose-built rental and cooperative housing for those who have been locked out of ownership by the growing gap between home prices and earnings.

PUBLIC OPINION AND THE POLITICS OF REDUCING THE HOME OWNERSHIP TAX SHELTER

Because of the politicization of the PRE to which I referred earlier, many federal ministers have been inclined to emphatically reject the idea of taxing capital gains on principal residences.[19] The received view in the world of politics appears to be that changing the PRE is a third-rail issue—touch it and you die.

However, opinion data paint a different picture, suggesting that there is a reasonable amount of public support for exploring shifts in the taxation of housing wealth. The following data were collected for Generation Squeeze communications research by Research Co., in an online survey conducted from February 17 to 19, 2022 among 1,010 Canadian adults.[20] The data have been statistically weighted according to Canadian census figures for age, gender, and region. The margin of error, which measures sample variability, is plus or minus 3.1 percentage points, 19 times out of 20. The questions and data are available online.[21]

Polling shows that most Canadians have a relatively sophisticated understanding of the impact of rising home prices, acknowledging that some are harmed as others benefit. For example, 86 percent "strongly" or "moderately agree" that "[r]ising real estate prices hurt younger people and newcomers of any age who cannot afford a

19 See, for example, Ahmed Hussen, @HonAhmedHussen, *Twitter.com*, July 18, 2020: "The Government of Canada is not looking at charging capital gains on primary residences."

20 Research Co. for Generation Squeeze, "Poll: Majority of Canadians Support a Price on Housing Inequity," February 2022 (www.gensqueeze.ca/housing_wealth_poll_2022).

21 Ibid.

home."[22] This agreement is consistent among respondents categorized by gender, age, region, political party preference, ethnicity, and household income, with support being the highest (at 93 percent) among those living in principal residences valued above $1 million.

On the flip side, 71 percent agree that "[r]ising real estate prices benefit many people who already own a home by growing their wealth."[23] While this large majority acknowledges the benefits that some accrue from housing inflation, support for the statement is more often "moderate" than "strong," signalling that harms from rising home prices are more obvious to Canadians than benefits. Still, scholars, politicians, and advocates should take note of widespread awareness among Canadians that homeowners do benefit from housing inflation. Support for this view is relatively consistent across age groups, regions (where it is highest in Ontario at 79 percent), voters for the big three political parties, ethnic groups, and household incomes. Interestingly, support for the statement rises as the value of one's own residence increases; of the respondents who claim that their principal residence is worth more than $750,000, more than 81 percent agree that rising housing prices benefit homeowners.

Acknowledgment of these harms and benefits suggests that Canadians' views on who is "wealthy" refer to possession of housing wealth, not just income. We examined this issue by exploring people's judgments about a young person earning $250,000 (an income that would place that person among the highest percentiles of Canadian earners) compared to a retiree with a fixed pension income of $22,000 (around the poverty line).[24] While a small minority (10 percent) think that a renter with a poverty-line income is "very" or "moderately wealthy," unsurprisingly, most (83 percent) think that someone with an annual income of $250,000, living in a fully paid-for home worth $1 million, is "very" or "moderately wealthy." The latter figure drops to 63 percent if the high earner is said to be a renter, and to 41 percent if the high earner is said to reside in a $1-million home with $900,000 owing on the mortgage. By contrast, slightly more (47 percent) judge that a retiree with a poverty-level income residing in a $1-million, fully paid-for home falls into the "very" or "moderately wealthy" category. This figure rises to 58 percent when the low-income senior's home is valued at $2 million without any mortgage.

Since Canadians perceive the harms and benefits of housing inflation to be unevenly distributed, and implicated in the perceptions of "wealth," "poverty," and the ability to pay that such terms imply, we queried people's views about the implications for tax policy. We started by probing awareness, and found that only 48 percent of Canadians (prior to answering our survey) were aware that "principal residences (the

22 Ibid., question 3.

23 Ibid.

24 Ibid., question 2.

home in which you or your family regularly live) are sheltered from taxation more than other assets."[25]

Limited awareness of the home ownership tax shelter means that the PRE is not yet a key "fairness" concern for Canadians. A minority (45 percent) think it is "definitely fair" or "probably fair" "for money gained from rising home prices to be taxed less than money earned from working."[26] Others think that it is "probably" or "definitely unfair" (38 percent) or are "not sure" (17 percent). Split opinions about what people think is fair likely relates to our finding that just one-third (31 percent) judge that homeowners benefit "very much" from the home ownership tax shelter, whereas the plurality (44 percent) think homeowners benefit only "a little."

The regional breakdown of responses to the question of who benefits from the PRE, and how much, reveals that sharing even a little information can prompt people to refine their judgments about benefits from the home ownership tax shelter. For example, fewer Canadians (18 percent) generally, and especially respondents in Atlantic Canada (14 percent) and the three prairie provinces (14 to 15 percent), think that owners benefit "very much" from the home ownership tax shelter in regions where there has been less home price inflation compared to the national average. By contrast, when prompted to focus on homeowners in British Columbia and Ontario specifically, the share answering that homeowners benefit "very much" rises to 42 percent, and to 47 percent when asked about benefits to homeowners "in Metro Vancouver and Greater Toronto (where home prices have risen the most in Canada)."[27]

Such variations in regional opinion underscore the finding that 55 percent of the national population "strongly" or "moderately agree" that

> [t]he rise in housing wealth inequality is unfair to retirees in the Prairies and Atlantic Canada. They pay taxes on their pension income just like the retiree does in Vancouver or Toronto. But they didn't gain hundreds of thousands, if not millions, of dollars in home equity. Many retirees in Vancouver or Toronto did. By failing to tax the wealth gained by owners in Vancouver and Toronto, we expect retirees in the Prairies and Atlantic Canada to pay more than their fair share of taxes.[28]

Support for this view is stronger outside British Columbia and Ontario: 66 percent in Alberta, 65 percent in Atlantic Canada, and 58 percent in Saskatchewan and Manitoba combined.

The reference to "retirees" in the previous statement anticipates that Canadians recognize that the benefits of the PRE play out differently by age. However, there is room to improve the public's understanding of the age distribution of PRE benefits. Table 1 shows that the aggregate net value of principal residences (market value

25 Ibid., question 4.

26 Ibid., question 5.

27 Ibid., question 6.

28 Ibid., question 11.

minus outstanding mortgage) increased by more than $3 trillion between 1977 and 2019. Two-thirds of this additional wealth is owned by Canadians over the age of 55, and much of it is sheltered by the PRE. Against this backdrop, the opinion data show that 35 percent believe that "seniors who have owned a home for decades" benefit "very much," and 38 percent answer "a little."[29] By comparison, 20 percent believe that "young people who recently bought their first home" benefit "very much," and 34 percent answer "a little."[30]

In addition to the three-quarters of respondents who agree that homeowners benefit "very much" or at least "a little" from the PRE, 52 percent view the PRE as being either "a great deal" or "a fair amount" "to blame for decreasing housing affordability in Canada" since it "makes rising home prices appealing for many homeowners because of the tax-free wealth created," while 18 percent are "not sure."[31] That level of opinion is on a par with the share who blame the decrease in affordability on "unethical behaviour by real estate agents" (53 percent), "developers building the wrong kind of supply" (53 percent), and "municipal zoning policies preventing developers from building enough of the right supply" (53 percent).[32] Fewer blame "criminal activity (such as money laundering)" (45 percent) and "inadequate financial planning from prospective home buyers and renters" (48 percent).[33] "[S]peculation by investors" (70 percent), "foreign investment" (68 percent), a "lack of supply" (64 percent), and "low interest rates/cheap credit allowing people to borrow more and bid up prices" (60 percent) poll higher among the commonly identified culprits causing housing unaffordability.[34]

With a slim majority viewing the PRE as a contributor to unaffordability, we asked all respondents what they thought was a "good or bad idea to address housing unaffordability."[35] We probed the taxation issue using a variety of phrases to inform our communications. Forty-nine percent think that "reducing the homeownership tax shelter that makes rising home prices appealing to many homeowners, because of the tax free housing wealth created" is a "very good" or "good" idea; 24 percent are "not sure."[36]

Just 36 percent judge that "taxing the rising value of all homes more by adding a capital gains tax to principal residences" is a "very good" or "good" idea, while 21 percent are "not sure."[37] Fifty-two percent agree that "putting a price on housing

29 Ibid., question 6.

30 Ibid.

31 Ibid., question 8.

32 Ibid.

33 Ibid.

34 Ibid.

35 Ibid., question 9.

36 Ibid.

37 Ibid.

TABLE 1 Total Net Value in Canadian Principal Residences, by Age of Primary Earner, 1977 and 2019

	1977			2019			2019 minus 1977			
Households, by age of primary earner	Home-owners	Total market value minus total mortgage debt[a]	Share of total net value in principal residences	Home-owners	Total market value minus total mortgage debt	Share of total net value in principal residences	Percentage change in rate of home-owners	Change in total market value minus total mortgage debt	Percentage change in share of total net value in principal residences	Percentage of total net value gained
	percent	*$ millions*	*percent*	*percent*	*$ millions*	*percent*	*percent*	*$ millions*	*percent*	*percent*
Under 35	41	92,967	15	36	285,604	8	−12	192,637	−51	6
35-44	73	130,692	22	61	499,445	13	−17	368,753	−39	12
45-54	74	147,499	24	72	798,279	21	−3	650,780	−13	21
55-64	70	120,421	20	73	951,761	25	4	831,340	27	26
65+	63	114,908	19	70	1,244,296	33	12	1,129,389	74	36
Total[b]		606,488			3,779,386			3,172,898		

a Adjusted to 2019 dollars.

b Column entries do not add to totals because of rounding.

Sources: Author's calculations based on 1977 data from Statistics Canada, "Survey of Consumer Finances" (1977) (microdata file), and 2019 data from Statistics Canada table 11-10-0016-01 (formerly CANSIM 205-0002), "Assets and Debts Held by Economic Family Type, by Age Group, Canada, Provinces and Selected Census Metropolitan Areas, Survey of Financial Security (x 1,000,000)."

inequity by adding a small surtax on high value homes" is a "very good" or "good" idea, while 21 percent are "not sure."[38]

Public support for reducing the home ownership tax shelter is slightly higher than support for "allowing higher interest rates to reduce the amount that people borrow, so they are less likely to bid up the price of housing"[39] (43 percent)—a change initiated by the Bank of Canada in March 2022. However, more respondents express support for other policy adaptations that governments have made in recent years, such as[40]

- "establishing new measures to curb money laundering in real estate" (72 percent) and "increasing the supply of housing" (72 percent);
- "taxing foreign owners of real estate more" (70 percent);
- "increasing the supply of rental housing" (68 percent) and "housing at below market prices" (68 percent);
- "reducing other costs that households face to free up more money for housing, such as child care" (66 percent);
- "changing zoning in neighbourhoods that currently prioritize single detached homes over more affordable kinds of housing" (57 percent); and
- "banning most foreigners from purchasing real estate in Canada" (57 percent).

Our survey concluded by probing public support for tax policy changes after specifically prompting respondents to think about addressing *both* housing unaffordability and housing wealth inequality. (Not anticipating that we would write this article for the *Canadian Tax Journal*, regrettably we did not specifically solicit views on eliminating the PRE in these questions.) Sixty-eight percent of respondents "strongly support" or "moderately support" "implementing a modest surtax paid by the 10% who own the most expensive homes," while 11 percent are "not sure."[41] Since most Canadians will not know which homeowners fall into this group, we also specifically explored support for a surtax paid on homes valued above $1 million (which at the time of writing represent about 12 percent of Canadian households). We found that 59 percent continue to express "strong" or "moderate" support. Interestingly, 62 percent support a surtax "paid by the 25% who own the most expensive homes,"[42] which would include far more owners than just those living in housing valued above $1 million. Generally, these patterns remained consistent when we swapped the phrase "a modest price on housing inequity" for "a modest surtax."

There is not much variation among voters for the three main federal political parties: 55 percent of Conservative, 63 percent of Liberal, and 64 percent of New

38 Ibid.

39 Ibid.

40 Ibid.

41 Ibid., question 10a.

42 Ibid.

Democratic Party voters support a surtax on home value above $1 million. Other breakdowns are more interesting. Regionally, support for adding the surtax rises to 73 percent in Atlantic Canada, 72 percent in Saskatchewan and Manitoba, 68 percent in Alberta, and 66 percent in Quebec. By contrast, support in each of Ontario and British Columbia is 49 percent. Surprisingly, only 65 percent of renters support the idea, compared to 54 percent of owners.

Opinion data disaggregated by household income and home value are also instructive. Whereas 66 percent of households with incomes below $50,000 and 61 percent of households with incomes between $50,000 and $100,000 support a modest surtax on home value above $1 million, support drops to 41 percent for households with incomes above $100,000. Similarly, support is high (70 percent) among homeowners who say that their home is worth less than $250,000, dropping to 66 percent for owners of homes reportedly valued at $250,000-$500,000, 53 percent for owners reporting homes valued at $500,000-$750,000, and 42 percent for owners reporting homes valued at $750,000-$1 million. Respondents who say that they own a home valued at more than $1 million show a different pattern. Sixty-four percent support adding a modest levy to "be paid by the 10% who own the most expensive homes," whether the levy is labelled "a modest surtax" or "a modest price on housing inequity."[43] When the question asks about adding the levy specifically above the $1-million threshold, support among these homeowners declines slightly, to 57 percent, if the levy is referred to as a "price on housing inequity," but support drops to 15 percent if the levy is described as a "surtax." These results suggest two important communications lessons. First, framing of the policy proposal will matter a lot for the subgroup that will be affected the most—in this case, a constituency that apparently includes many with a distaste for a surtax. Second, the substantial drop in support when the levy is labelled a "surtax" may also reveal that many in this housing bracket do not recognize that they are near or among the 10 percent of Canadian households who own the most valuable homes. Indeed, our polling data show that the large majority of Canadians overestimate how many households own million-dollar homes. Currently, those households represent approximately 12 percent of all households (see table 2); when we started the project, they represented fewer than 10 percent. By contrast, 80 percent of all respondents think that more than 10 percent of people reside in homes valued above $1 million. Forty-two percent of all respondents think that more than 25 percent of people fall into this group, while 54 percent of those who own a home valued above $1 million share this view.

Forty-three percent of respondents indicate that their support for reducing the home ownership tax shelter would grow if the additional revenue would pay for a tax shift that results in "income tax cuts for middle and lower income earners."[44] Respondents also signal that their support for reducing the tax shelter would grow if it generates more money to pay for "affordable housing" (40 percent), "medical care,

43 Ibid.

44 Ibid., question 10.

TABLE 2 Percentage of Canadian Households Owning a Principal Residence Valued Above $1 Million, 2021

Home value	Percentage of households in Canada[a]	No. of households in Canada	Average home value
$ millions	*percent*		*dollars*
1-1.5	7.61	2,082,143	1,212,486
1.5-2	2.52	696,444	1,719,132
2+	1.99	583,060	3,025,897
Total[b]	12.13	3,361,648	

a Includes renters and cooperatives as well as homeowners.
b Column entries do not add to totals because of rounding.

Sources: Calculations by Shahar Rotberg, Canada Mortgage and Housing Corporation, using Statistics Canada, "Survey of Financial Security (SFS)," adjusted in light of 2021 data from the Canadian Real Estate Association (www.crea.ca).

long-term care, and pharmacare" (39 percent), and "affordable child care" (32 percent); or if it "helps slow down home price increases, so earnings have a chance to catch up" (38 percent), "reduces wealth inequality" (37 percent), "reduces inequality between owners and renters" (32 percent), or "reduces wealth inequality between homeowners in high value markets like Vancouver and Toronto, and homeowners in places where prices are not rising as quickly like Atlantic Canada, Quebec and the Prairies" (30 percent).[45]

Finally, a majority of respondents "strongly" or "moderately agree" with the following statements that propose to reduce the home ownership tax shelter,[46] including a majority of those who self-identify as owning homes valued above $1 million:

- "It's time to ask the 10 percent owning Canada's highest value real estate to tolerate a small price on housing inequity in order to demonstrate allegiance to the Canadian dream that a good home should be in reach for what hard work can earn, whether as renters, in co-ops or as owners" (65 percent "strongly" or "moderately agree"; 17 percent "not sure").
- "Just like governments have introduced a price on pollution to lower our emissions and tackle climate change, we should put a modest price on housing inequity to reduce unaffordability and wealth inequality" (60 percent "strongly" or "moderately agree"; 17 percent "not sure").
- "Just like offshore tax shelters motivate moving money out of Canada to preserve assets, the homeownership tax shelter motivates us to bank on rising home prices to gain wealth. Any policy system that turns homeownership into

45 Ibid.

46 Ibid., question 11.

an investment strategy entangles owners in the hope that home prices will rise beyond local earnings, which is crushing affordability and harming younger and future generations" (56 percent "strongly" or "moderately agree"; 23 percent "not sure").

- "We cheapen what's sacred about homes when we make it harder for everyone to access them by protecting tax shelters, at the expense of real shelters" (50 percent "strongly" or "moderately agree"; 23 percent "not sure").

CONCLUSION

As discussed in the first section, it is well recognized in academic scholarship that tax shelters such as the PRE create behavioural incentives that contribute to problematic or potentially harmful economic outcomes, such as the rising housing unaffordability and housing wealth inequality that we have witnessed in Canada in recent decades. It is challenging to address these harmful outcomes half a century after the PRE was first created, by eliminating it now. Not only would elimination of the PRE likely tolerate a range of horizontal inequities in taxation, even if it could be applied to past purchases, but it would also be complicated to administer, whether implemented retroactively or just prospectively. However, there are other policy tools that can be used to reduce the home ownership tax shelter, such as a deferrable progressive surtax added to annual property taxation. This tool could be implemented alone or in combination with the elimination of the PRE.

Although political posturing often implies that revising the tax treatment of housing wealth is untenable, opinion data discussed in this article suggest that there is considerably more public support for a policy change than is generally acknowledged. Many Canadians recognize that rising home prices cut two ways, harming some (disproportionately younger people, newcomers, and renters who have not yet bought a home) while helping others (existing homeowners). Attitudes about wealth, poverty, and ability to pay are influenced not only by income but also by the value of any housing owned. While public awareness of the PRE is somewhat limited, our polling results suggest that sharing just a little information can attract strong judgments about whom the exemption hurts and whom it helps. The PRE is not yet at the top of the list of things that people view as "unfair" in Canada, or the list of things that they blame for housing unaffordability. But Canadians do rank it among the culprits that are more often held responsible for rising housing prices, and that attract a great deal of anger, such as money laundering, unethical behaviour by realtors, developers building the wrong supply of housing, and municipal zoning that prevents developers from building the right supply. Given these findings, it is also reasonable to anticipate that it would take relatively little communications work to support the 15 to 25 percent of the population who are often "not sure" about the best strategy for taxing housing wealth, to align with the majority of Canadians who already express openness to reducing the home ownership tax shelter.

Scholars and policy makers alike should expect public dialogue about the PRE to grow in the months and years ahead, because policy makers have already taken action to address the usual suspects blamed for housing unaffordability.[47] This means that further progress in reducing unaffordability and housing wealth inequality will require politicians and the public to contemplate policy options that have, to date, been uncomfortable for all concerned. This discomfort is reflected in polling results that show greater support for policy changes that target "others" (the foreign buyer, the speculator, the money launderer, the developer, etc.) by contrast with policy changes that target ordinary Canadians. The home ownership tax shelter is a challenging policy issue because it implicates many of us—the 70 percent of Canadian households that own their principal residence—in a dysfunctional housing system that has fuelled unaffordability and inequality. While it has so far been common for elected officials to dodge this hard conversation with Canadian homeowners, the polling data described in this article suggest that much of the Canadian public is ready to integrate a more nuanced analysis of taxation into public dialogue about housing, in the search for policy solutions to unaffordability and wealth inequality.

47 See Kershaw, supra note 1.