

DIVIDENDS

Investment Planning eNewsletter

The Crushing Weight of Regressive Taxation on Housing Affordability

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The dream of owning a single-family home in Ontario, and much of Canada, is increasingly out of reach, not just because of construction costs, but primarily due to regressive taxation. Even a hypothetical 60% drop in construction costs wouldn't make housing affordable for many families.

Let's break down the numbers:

The average cost to build a family dwelling in Ontario (single-family, semi-detached, or condo) is \$1.1 million (2024 figures from the Canadian Centre for Economic Analysis [CCOE]). For a family to afford a home, they need a price closer to \$450,000, assuming a 10% down payment, a 5% interest rate, and a 25-year amortization (per CCOE).

The average tax burden on
new housing in Ontario is
35.6% of the purchase price.

Governments make **almost 4
times more** than a builder of
a new home.

The Myth of a 60% Price Drop:

Imagine a scenario where new home prices magically drop by 60%. This is, of course, unrealistic. Such a drop would require governments at all levels to eliminate *all* revenue streams associated with housing construction: development charges, HST, income taxes on construction workers and companies, land transfer taxes, and more. Even in this fantasy scenario, the impact would be significant, but not enough. Government revenue alone accounts for 36% (\$380,000) of the \$1.1 million home price. Eliminating this brings the cost down to \$720,000.

Table 1 Total tax and fee burden on a new home in Ontario at average market prices. Percent of final price.

	Single & Semi	Row	Large Apt	Small Apt	All Types
GTA, excl Toronto	34.7%	36.1%	37.0%	36.9%	35.9%
Toronto	35.4%	36.5%	34.2%	35.3%	35.1%
Outside GTA	34.9%	36.6%	35.2%	35.3%	35.5%
Ottawa	34.1%	34.4%	35.2%	33.9%	34.5%
Ontario Average (est)	34.7%	35.9%	36.2%	36.1%	35.6%

Next, suppose builders and developers forgo their 10% profit margin (\$115,000). The price is now \$605,000. To reach the \$450,000 target, we'd need further cuts. Asking construction workers to donate 81% of their earnings, or suppliers to offer a 30% discount on materials (\$155,000), is absurd and unsustainable.

The Core Problem: Regressive Taxation

Since **70%** of the tax and fee burden is essentially fixed, a decline in new home market prices squeezes developers' profit margins, eliminating the incentive to build new homes until housing prices rise again.

Fees are taxes. Like HST, development charges and other added costs are government revenue. Even if you build a home yourself, the government's share remains.

Consider development charges: whether your building permit is for a \$700,000 or \$1.1 million home, local governments collect roughly \$124,000 in development charges. This is a prime example of regressive taxation – the amount doesn't change based on the project's value. Add HST on materials (\$65,000), land transfer tax (\$20,000), and the government's take becomes substantial.

The problem is even more pronounced with apartments.

Let's try to build that apartment in the communities that need them the most, Toronto and its surrounding communities.

Development costs in Toronto for a single-family home went from \$19,000 in 2013 to \$138,000 in 2024. How about for apartments? These same fees went from \$8,400 to \$57,000/unit. Yes, per unit not for the whole apartment building. On that cost of \$450,000 one-bedroom condo/apartment unit in Toronto the Governments share goes from 36% of the cost to 45%. The builder pays the Governments \$203,000 in taxation. No wonder apartments do not get built.

If they do get built it is typically due to some form of federal or provincial government grant or incentive. A grant they issue to the builder so the builder can pay them 45% of every dollar! And those of us not living in these apartments become the funders of these incentives from what we pay in HST and income taxes and other government fees.

For builders attempting to deliverable more affordable housing, the tax and fee burden begins to approach **45%** of the purchase price.

Who Profits?

Governments collect nearly four times more revenue from a new home than the builder's profit. The tax burden on new homes in Ontario is more than double that of the broader economy. This regressive system stifles new construction. If builders reduce prices, their profits vanish, and they have no incentive to build.

The Unsolvable Problem?

High new home costs drive up resale prices. The solution requires governments to step back from treating housing as a revenue generator. However, simply shifting these costs to property taxes isn't a real solution.

I saw Grimsby population grow from 18,000 to 32,000 over a 22-year period. Our property taxes tripled and never went down during all this development. All that new housing never actually reduced any of the costs for the community, only increases. A business that accomplishes growth typically finds and uses economies of scale to keep costs flat or low. Governments unfortunately do not understand economies of scale as they are not responsible for the income they generate. They merely impose costs upon others.

The Urgent Need for Change:

Canada needs an estimated 3.5 million new homes by 2030. In 2023, only 240,000 were built. We truly will never have the opportunity to catch up to these past needs. Unless the government addresses the crushing burden of regressive taxation, the housing affordability crisis will only worsen. A fundamental shift in how governments approach housing finance is crucial to make homeownership attainable for Canadians.

My consensus statement to all: The markets have had 10 years to decide that the US equity markets are overvalued or that other countries equities were worth more. We shall continue to use US Growth to provide "protection" to our portfolio's.

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