The Increasing Tax Burden on New Ontario Homes: 2024

Research Report
November 2024

CANADIAN CENTRE FOR ECONOMIC ANALYSIS

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> 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.
>
> A new home in Ontario has a tax burden **more than twice** that of the rest of the

Economic growth is fundamental to a nation's long-term success and its citizens' well-being. Not only does it come with key benefits such as job creation, reduced unemployment, and rising income levels but growth enables governments to fund essential public services like education, healthcare, and infrastructure. However, a robust labour force and an environment which supports investment in productivity is required for economic success. In Ontario, an aging population and declining birth rates, are contributing to labour shortages, creating a pressing need for a steady influx of skilled immigrants to fill the workforce gap and support economic resilience. However, this depends on a robust housing supply, where residents can live within their financial means, and must be supported by significant public infrastructure investment. Addressing this challenge is a shared responsibility across federal, provincial, and municipal governments. Unfortunately, municipalities in Ontario lack access to the prosperity-based revenue streams that other government can access to fund the infrastructure necessary for new housing developments. However, the reliance on the use of development charges and other fees to municipalities fund infrastructure and other growth-related investments has significant negative consequences on the affordability of housing and the ability of builders to invest in new developments.

The objective of this report is to quantify the total tax and fee burden on new homes in Ontario, incorporating data up to September 2024. Over the past decade, huge increases in this burden have occurred, particularly as the result of large development charge increases across many municipalities. This report examines the tax and fee burden and explore its implications on housing affordability, residential developer margins, market constraints and housing supply issues.

RESULTS AT A GLANCE

The total tax and fee burden in Ontario averages almost 36% of the final purchase price of a new home. This is a 16% increase since 2021 (where the average rate was 31%) and reflects the recent and significant increases in development charges (DCs) that continue to drive housing costs higher. This escalation presents substantial challenges for housing affordability, market stability, and economic sustainability across Ontario.

Our findings demonstrate that of the total tax and fee burden on new housing, 70% consists of direct fees on the home, such as DCs and other fees, while the remaining 30% arises from indirect taxes paid during the development process, including income and corporate taxes paid during the ordinary course of a residential construction business. On average, across the province, different housing types carry varying levels of tax burden: 35% for single-family and semi-detached homes, and 36% or more for row and apartment units. Across many individual municipalities, the rates are even higher. This growing tax load is compounded by a system that is not progressive, with DCs having a uniform application determined by unit type, irrespective of property value or size, further limiting affordability for first-time buyers and lower-income households.

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%

Since our April 2023 report, "An Uncomfortable Contradiction: Taxation of Ontario Housing," we note that:

- The average total tax burden on a new house in Ontario increased by 16% from 31% to almost 36% of the purchase price.
- Governments now benefit financially almost four times more than that of a builder for each new home constructed, a 25% increase since the last report.
- The tax and fee burden on new homes was continues to be more than twice that of the rest of the economy.

The economic implications of the housing charges, fees and tax regime for new homes are notable, as discussed below.

AFFORDABILITY CHALLENGES

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

The affordability problem in Ontario's housing market is starkly highlighted by the gap between what is considered an "affordable" new home price[1], at around $450,000, and the actual average price of a new home, which is roughly $1,070,000 (averaged across all housing types). The high tax burden—35.6% on an average-priced home—further exacerbates this issue, but it becomes particularly problematic for lower-priced, "affordable" units. For homes priced at $450,000, an amount which aligns with what many households could afford based on median pre-tax household incomes, the average tax burden rises sharply to 45.2%. This regressive effect means that a significant portion of the price of an "affordable" home is made up of taxes, fees, and charges, leaving limited room for construction and development costs. The tax burden does vary by dwelling type. For a small 1-bedroom condominium, priced at the affordable level of $450,000, taxes and fees still constitute 39% of the final purchase price.

[1] Note that the affordable assumptions made in this report are: 30% of median pre-tax household income in each region, 10% downpayment, 5% interest rate, 25-yr amortization.

Research has shown that high and increasing DCs impose substantial financial pressures on residential developers resulting in less development, ultimately constraining access to affordable housing for buyers, particularly for lower-income households and first-time buyers. Fixed, upfront fees like DCs raise baseline housing costs, making affordable housing projects, particularly larger units, financially challenging or unviable. Consequently, developers are often limited to building smaller, one-bedroom or studio apartments that are unsuitable for families, thus failing to meet broader community needs for affordable family housing.

> 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.

IMPACT ON DEVELOPER MARGINS AND MARKET DYNAMICS

High fixed fees and DCs also significantly impact developers' profit margins and ability to invest in diverse housing projects. In Ontario, average developer margins are approximately 14% before direct taxes and fees. However, after factoring in these taxes, margins fall to around 10.7%. This reduction poses a notable risk in a declining housing market, where fixed costs become unsustainable if home prices decrease. For instance, a 5% drop in the purchase price of new home (with no change in construction costs) would reduce developer margins by 40%, while a 10% drop would almost eliminate them.

Economic studies illustrate that high fixed fees limit private capital investment and reduce developers' willingness to undertake riskier, lower-margin affordable housing projects. Developers facing such tax and fee burdens often redirect investments toward higher-end developments with more predictable returns, restricting the supply of affordable housing options. The resulting “capital rationing” effect leads to fewer, less diverse housing units, contributing to market inefficiencies and escalating housing costs.

EXCESSIVE GOVERNMENT CHARGES

The total tax and fee burden on new housing in Ontario extends beyond municipal fees, encompassing federal and provincial sales taxes and land transfer taxes. This "tax on a government fee" structure further inflates housing costs, disproportionately affecting new homebuyers. These taxes apply to the total home price, which includes embedded costs such as DCs and other fees, further exacerbating the affordability issue and compounding the financial pressures on homebuyers.

Our analysis shows that governments collectively benefit significantly more than builders from new home construction, earning over 3.9 times the revenue that builders realize from a single unit[2]. This is especially problematic given that the tax and fee burden on new homes is now more than double that of the general economy. Ontario’s new housing tax regime risks placing significant pressure on prospective homebuyers and developers alike, further intensifying the province’s affordability crisis and hindering sustainable economic growth.

[2] Calculated as the percentage of the final cost to the purchaser of a new home. Developer margins are after tax.

Conclusions

The research findings indicate a critical need for increased federal and provincial government involvement in funding public infrastructure investment at local levels to support growth and ease the housing unaffordability problem in Ontario.

Unlike the tax regimes of the federal and provincial governments, which can tax residents' prosperity through income, corporate, and sales taxes, Ontario municipalities lack these revenue streams. Instead, they rely primarily on property taxes and service-related fees and charges. As a result, property transfer fees and development charges have become a byproduct of the underfunding of municipal infrastructure. While federal and provincial governments retain a disproportionate share of income and wealth-based taxes, their transfers back to municipalities remain insufficient. This leaves new homes in Ontario subject to taxation by all three levels of government, leading to a tax burden on new housing that is more than double that of the broader economy.

This report calls for urgent consideration of a more equitable distribution of federal and provincial tax revenues to support essential municipal infrastructure programs. Additionally, it suggests that implementing progressive or value-based development fees would create a more balanced and sustainable approach to housing affordability in Ontario.

1.0 BACKGROUND AND OBJECTIVES

The economic growth and prosperity of Canada heavily rely on the development of its provinces and territories, and Ontario plays a crucial role in driving the national economy as the most populous province in the country. However, Ontario is facing significant challenges related to unaffordable housing, the underinvestment in public infrastructure, and the pursuit of sustainable economic growth. With a growing demand for workers and an aging population, economic growth is essential. Achieving this requires appropriate investment in public infrastructure, a responsibility shared by all three levels of government in Canada. And while governments have vocally supported the building of more housing as part of the solution for the housing affordability, it is important to consider whether this rhetoric matches with what governments are doing to encourage its construction.

Restoring housing affordability in Ontario requires not only fiscal reform but also a significant increase in the production of new homes, as found by CANCEA (2017) and CMHC (2018; 2022). These studies show that new housing production in Ontario would need to rise by at least 80% above current trends. However, achieving this level of housing construction presents significant challenges. Municipal governments, traditionally responsible for housing policy, do not benefit fiscally from growth. While provincial governments set province-wide goals, municipalities are often swayed by local residents who oppose new housing development. Furthermore, there are significant duration of the approval processes for new housing construction, meaning that requesting approval today may not result in completed housing for many years.

This report serves as an update to our 2023 publication, which examined the sources of taxation related to the construction of new homes and identified who bears the cost of public infrastructure investment essential for economic growth. Additionally, it analyzed how the benefits and costs of growth are distributed among different levels of government, particularly in relation to the construction of new homes and the necessary public infrastructure investment.

The primary objective of this report is to update the total tax burden estimate on new homes in Ontario using data up to and including September 2024. This update responds to the significant increase in development charges (DCs) over the past two years, which has further amplified the tax burden on new housing in Ontario. Building on the updated estimate of the total tax burden, the report will explore the implications for housing affordability, residential developer margins, market constraints, supply challenges and the issue of double taxation.

1.1 APPROACH

The construction of a new home in Ontario can be broken down into the following components:

- Input of goods and services used by a builder such as raw materials (including land), architect services, etc.
- Local taxes on production and other local government fees, such as development charges and building permit fees;
- Wages and benefits for construction workers.
- Builder margins

- Land transfer taxes which are charged by the province and the City of Toronto upon the transfer of title to a new home; and
- Federal and provincial sales taxes which are paid on the sale of the new home. Rebates are accounted for with the net revenue being reported[3].

Since our last report, the primary change to the taxation, charges and fees regimes around new homes in Ontario has been the increase in development charges (DCs) across most municipalities in the GTHA. To incorporate these DC changes into our modelling framework, we make the following assumptions:

- 2024 DCs would apply to 2024 residential building applications;
- The recent mix of housing in terms of singles/semis, row, large and small apartments is maintained; and
- Housing prices are based on current new home market prices by type and region in the GTA.

These assumptions are incorporated into our socio-economic simulation platform, allowing us to estimate how municipal fees and charges levied on the construction of new homes impact economic activity, private investment and taxation revenues that accrue from federal and provincial taxation policies.

1.2 Development Charge Increases

Since 2020, DCs in Ontario have substantially increased, with many municipalities raising their DCs by over 20% annually. On average, weighted for housing starts across the GTA, development charges have increased by 65% in total from just 2020 to 2024.

These charges, levied by municipalities to fund infrastructure needs associated with new developments, have become a critical revenue source for them, particularly in the face of ongoing infrastructure funding shortfalls. However, the dramatic increases in recent years have intensified concerns about affordability, market stability, and the financial pressures on developers and homebuyers alike.

[3] Note that the rebates are marginal (federally), and capped (provincially) as the value at which a home is sold exceeds the limits of those homes that would qualify. Also note that the value of a home that is used as the test for a sales tax rebate includes production taxes such as development charges.

Figure 1 Annual Growth in DCs for Singles/Semis, 2020 to 2024

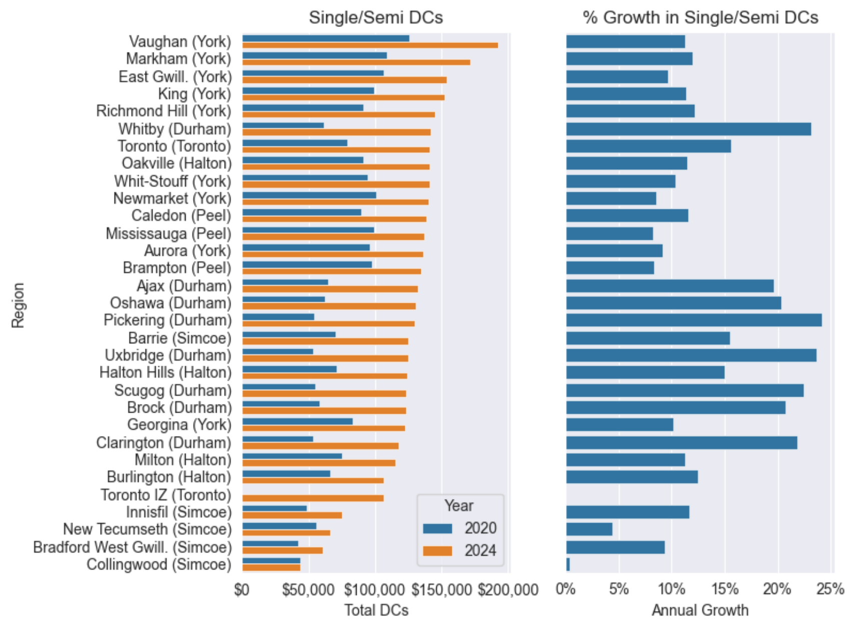
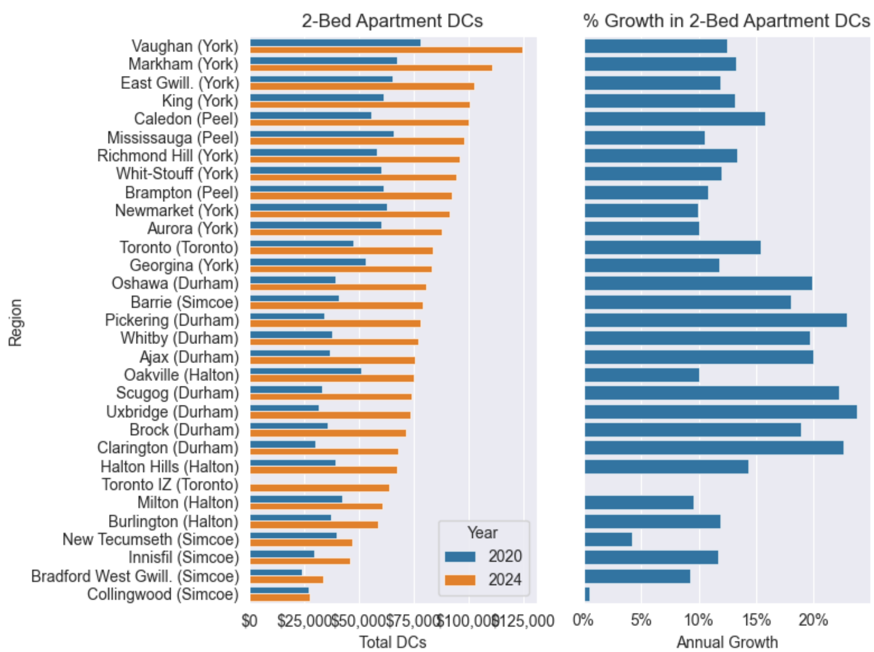


Figure 2 Annual Growth in DCs for 2+ Bedroom[4] Apartments, 2020 to 2024



Factors contributing to the increase in DCs and fees include:

- **Rising Infrastructure Costs**: The cost of constructing and maintaining infrastructure, from roads to wastewater systems, has escalated due to inflation, material price hikes, and supply chain changes.

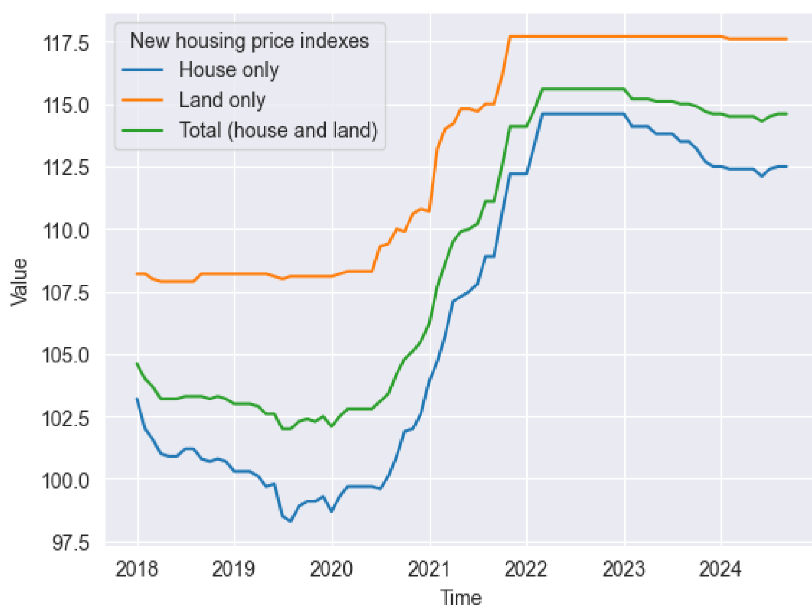
[4] Some municipalities use size rather than the number of bedrooms: Peel: >750 sqft, York: >700 sqft.

Municipalities are transferring these costs to developers via DCs to ensure they can meet expanding service demands.

- **Population Growth and Urban Expansion**: Ontario's major urban areas are experiencing rapid growth, further straining existing infrastructure. Municipalities argue that new development must "pay its own way," passing these costs onto developers to prevent existing residents from bearing an outsized tax burden.
- **Insufficient Provincial and Federal Funding**: While provincial and federal governments benefit from increased income and sales tax revenues linked to growth, municipalities rely heavily on property taxes and DCs. With limited fiscal flexibility, municipalities have few options beyond raising DCs to meet their financial obligations for growth-related infrastructure.

Since 2020, new home prices have also been increasing across Ontario, with the market price of a new home increasing by about 15% on average. This compares to total development charge increases of 65% from 2020 to 2024.

Figure 3 New housing price index in Toronto CMA



Like any other business, residential building developers build new homes to make profits. Their profit margins can be expressed as a percentage of the final price of a new home. On average, across different housing types, in Ontario, developer margins are approximately 14% of the average cost of building a new home, before municipal charges and fees. Since most developer expenses and municipal charges and fees are fixed given the characteristics of a home being built, if the average market price of a such home decreases, the decrease must be absorbed in the margins of the developer. As a consequence, if both development charges and home prices are both rising, it actually increases the risk to developers if market prices for new homes were to fall. These implications of municipal charges and fees for developer investment choices are significant and will be discussed further in the section on Risks of High Tax Burden on Ontario New Homes.

2.0 RESULTS

2.1 TOTAL TAX BURDEN ANALYSIS

This section presents our findings regarding the tax and fee burden on the construction of new dwellings. For 2024, the average cost components per dwelling constructed in Ontario are presented in Table 2.

Table 2 Average cost components per dwelling constructed in Ontario, 2024

	2024 Costs	Percent of Builders Cost before Production Taxes
Input Goods and Services	$497,917	62.0%
Wages and Benefits	$190,480	23.7%
Margins	$114,469	14.3%
Total Builder Cost before production taxes	**$802,866**	**100.0%**
Production taxes (including development charges)	$131,654	16.4%
Total Builder output (cost)	**$934,519**	**116.4%**
Net Provincial Sales Tax	$68,466	8.5%
Net Federal Sales Tax	$47,126	5.9%
Land Transfer Taxes	$19,586	2.4%
Total Purchase Cost	**$1,069,698**	**133.2%**

As shown in Table 2, the average price paid for a new home in Ontario is almost $1.1 million before real estate and legal fees. This is over 14 times the Ontario median household after-tax income. Production, sales taxes and transfer taxes alone are over 3 times the Ontario median after-tax income household income.

The cost to the builder, before any production taxes and fees, makes up to 75% of the purchase price of a new home. The remaining balance of 25% are taxes paid, being on average $266,800 per dwelling[5].

Production, sales and transfer taxes that are added by the time the new home is sold is **over 3 times** the Ontario median household after-tax income.

Given that the objective of the present research is to shed light on all the taxation embedded in the cost of a new home, the costs are further decomposed in Table 3 by the income and corporate taxes paid throughout the building process. Notably, 35.6% of the total average purchase cost of a dwelling is attributable to taxes.

[5] Note that production taxes and fees vary considerably across Ontario and can be well above the average reported here. Also note that sales taxes and transfer fees apply to production taxes as well.

Table 3 Average tax burden per residential dwelling constructed in Ontario

	Average per Dwelling	Total Taxes	Type of Tax				
			Income Tax	Corporate Taxes	Sales Taxes	DCs and Fees	Transfer Taxes
Input Goods and Services	$497,917	$52,334	$34,707	$10,158			
Wages and Benefits	$190,480	$52,253	$52,253				
Margins	$114,469	$16,971		$16,971			
DCs and Fees	$131,654	$124,185				$131,654	
Net Provincial Sales Tax	$68,466	$68,466			$68,466		
Net Federal Sales Tax	$47,126	$47,126			$47,126		
Land Transfer Taxes	$19,586	$19,586					$19,586
Total Purchase Cost	$1,069,698	$380,921	$86,960	$27,129	$115,592	$131,654	$19,586
Percent of Purchase Price		**35.61%**	**8.13%**	**2.54%**	**10.81%**	**12.31%**	**1.83%**

With the total taxation contained in the construction of a new home at 35.6% of the average purchase price, on average $380,900 is incurred by the government (encompassing all three levels) as taxation or fee revenues for each new dwelling constructed. Production taxes including development charges are now the largest at 35% of total tax. Sales taxes are the second largest tax source at just over 30% of total tax, with income and corporate taxes together accounting for just under 30% of total taxes.

As presented in the following table, the total tax and fee burden as a percentage of the average purchase price of a new dwelling across different regions varies.

Table 4 Total tax and fee burden by region and dwelling type

	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%

Once the purchase cost of a new home is adjusted for the cost of land and raw materials and considering the after-tax revenues of industry stakeholders from new housing construction, it is found that the stakeholder with the largest returns is the government (encompassing all three levels), with total taxation revenues at 35.6%. Construction workers, on an after-tax basis, are the second largest beneficiary at 13% of the cost of a new home. Developers and suppliers, with the smallest after-tax margins, are the lowest beneficiaries. Surprisingly, governments collect 3.9 times developers' net after-tax margin of 9.1%.

Table 5 Take home amount from a new dwelling as percentage of final purchase price

Recipient	% of Final Cost of Purchaser
Governments	35.6%
Value of Land and materials	21.2%
Construction workers (after tax)	12.9%
Supplier workers (after tax)	16.9%
Developer margin (after tax)	9.1%
Supplier margins (after tax)	4.2%
Total	100%

It is worth noting that any gains made, and taxes paid, from the change in land values held by developers have not been included in the calculation of their margins, as it is unknown. If some developers engage in "land banking," it may lead to higher margins, not from building new homes, but from real estate investment, which is a different activity.

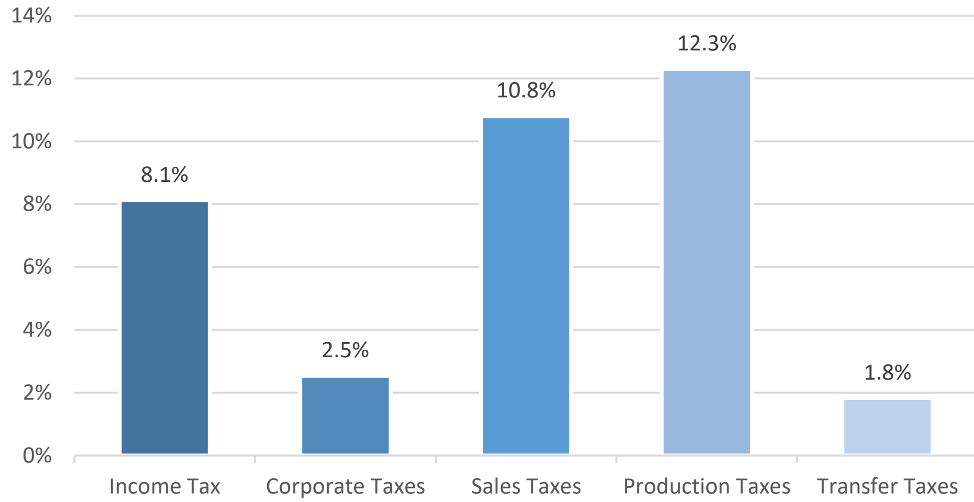
Given the low after-tax net margin of 9%, it is difficult to justify the risk of being a residential developer based solely on building margins. A low margin is impactful because the processes and costs associated with local zoning rules, building approvals, and rising production taxes, in the form of development charges, make residential development a high-risk venture.

Governments are the largest beneficiary from the building of a new home in Ontario at **35.6%** of final cost of purchase.

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

Over the past 25 years, real estate investment has faced a significant increase in land values, which has arguably compensated 'land banking' builders for the risks inherent in building a new home. If increasing land values have artificially supported the building of new homes, the risk is, once land values stop rising, builders will be disincentivized to continue their engagement in the housing construction industry, thereby slowing doing new housing construction. A potential disengagement by builders in the production of new homes is a problem for the growth planning of governments.

Figure 4 Distribution of taxes and fees on a new home



2.1.1 TAXATION REVENUES FROM HOUSING AND THE GENERAL ECONOMY

The preceding analysis focused on how much tax is generated as part of the entire process of producing a new residential dwelling. This had included tax revenues paid as part of the supply chain (input goods and services), taxes paid by construction workers and the developer, and taxes paid as part of the sale of the new dwelling.

The construction of new homes in Ontario is subject to **twice the tax burden** compared to the rest of the economy.

At 35.6% of the cost to purchase a new home, the tax burden appears to be quite high. A natural question is how this tax burden compares to the tax burden on the rest of the economy.

In terms of economic output measures, the ratio of direct taxes on the construction of a new home to its economic output is 35.6%, which is the same as the percentage of tax reported earlier. Conversely, the ratio of direct taxes on the rest of the economy's output is 16%. In other words, the construction of new homes in Ontario is taxed at 2.2 times the rate of the rest of the economy, in terms of direct economic output.

2.2 Risks of High Tax Burden on Ontario New Homes

The economic implications of the housing charges, fees and tax regime for new homes are notable. These issues are explored in this section.

2.2.1 PROBLEM FOR AFFORDABILITY

The economic literature underscores significant risks to delivering affordable housing in Ontario, primarily due to high and increasing DCs, which place substantial financial pressures on residential developers and new home buyers. These fixed, upfront fees raise the baseline cost of housing production, often making affordable housing projects financially unviable. For instance, Ihlanfeldt and Shaughnessy (2004) argue that increased impact fees, such as DCs, are typically passed on to end buyers, disproportionately affecting lower-cost units and first-time buyers. This cost pass-through not only raises home prices but also constrains access to affordable housing options for lower-income households.

The affordability problem in Ontario's housing market is starkly highlighted by the gap between what is considered an "affordable" new home price, at around $450,000, and the actual average price of a new home, which is roughly $1,070,000. The high tax burden—35.6% on an average-priced home—further exacerbates this issue, but it becomes particularly problematic for lower-priced, "affordable" units. For homes priced at $450,000, which aligns with what many households could afford based on median income, the tax burden rises sharply to 45.2%. This regressive effect means that a significant portion of the price of an "affordable" home is made up of taxes, fees, and charges, leaving limited room for construction and development costs.

This high tax burden places constraints on what developers can feasibly build, pushing them towards smaller, one-bedroom or studio apartments, typically less than 700 square feet. While these units may technically fall within the "affordable" price range, they are not suitable for most families, thus excluding a significant portion of the market who require more space. Essentially, the combination of high taxes and fees with construction costs limits the market's ability to supply affordable, family-friendly housing.

Therefore, the affordability crisis is twofold:

1. **High Tax Burden on Lower-Priced Units**: As taxes and fees consume nearly half the cost of a home at the affordable price point, it leaves little room to build units that can accommodate families. This limits affordable housing to small, non-family-friendly units, thus failing to meet the needs of many households.

2. **Mismatched Supply and Demand for Family Housing**: The market becomes skewed towards smaller, single-occupant apartments due to cost constraints. Families and larger households, who need more space, are priced out of the "affordable" segment, intensifying the demand for family-friendly housing and further driving up prices in that segment.

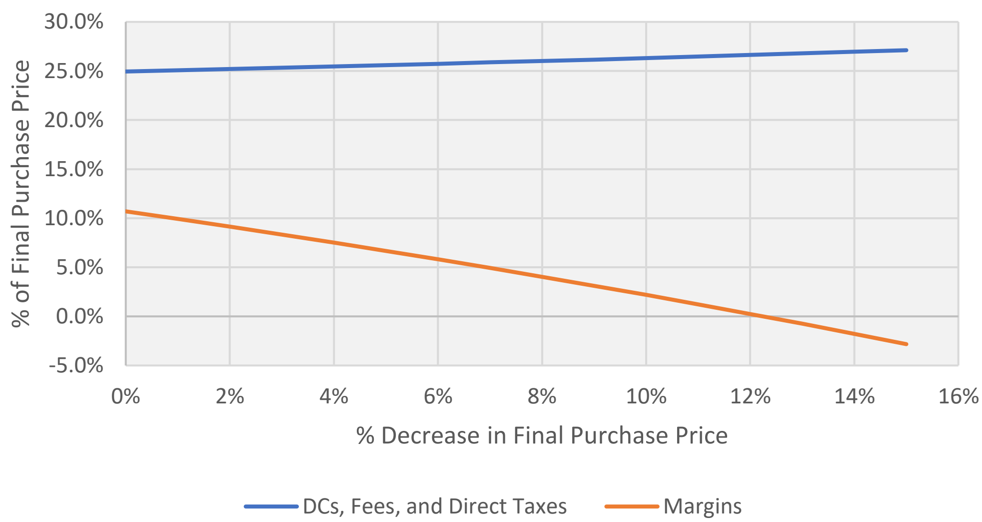
In summary, the current tax and fee structure on new housing in Ontario imposes an outsized burden on lower-cost housing, leading to an insufficient supply of affordable, family-friendly homes. This dynamic perpetuates the affordability crisis, as the market can only feasibly supply small units that do not meet the needs of most homebuyers looking for affordable and sufficiently spacious housing options. Addressing this issue would require a revaluation of the tax burden, particularly for units priced within the affordability range, to enable the development of diverse housing types that meet broader family and community needs.

2.2.2 IMPACT ON DEVELOPER MARGINS AND MARKET DYNAMICS

Like any other business, residential building developers build new homes to make profits. These profit margins can be expressed as a percentage of the final price of a new home. On average, across different housing types, in Ontario, developer margins are approximately 14.3% of the average cost of building a new home, before direct taxes (e.g. municipal charges, fees, HST, etc.). After all direct taxes are added, the developer margin drops to about 10.7% of the average cost of a new home before legal and real estate fees. Since most developer expenses and municipal charges and fees are generally fixed given the characteristics of a home being build, as the average market price of a new home decreases, the difference must be absorbed by the developer's' margins. Alternatively, the developer may shift to less risky investments with higher margins such as more expensive and larger homes which only further exacerbates affordability challenges.

Using the average Ontario results as the base case, the following graph shows how the total tax burden and developer margins change with a decrease in house prices, holding building costs constant.

Figure 5 Sensitivity of margins and taxes to housing price changes



As can be seen, the implications of municipal charges and fees for developer margins are significant. Since 2020, average new home prices have increased by about 15%, and municipal DCs have increased by 65%, on average[6]. When development charges rise in tandem with new home market values, and are generally a fixed cost to the developer, they increase the risk to developers when market prices for new homes fall. This occurs even if municipal DCs and fees were to change with inflation rates, as the developer must cover the change in price of the whole home. Therefore, any relief from DCs and fees against an inflation index is overshadowed by the change in value of a new home.

If market prices decline, fixed government fees such as DCs put the financial viability of development projects at significant risk, thereby negatively affecting the ability of the industry to supply new homes. To put this into perspective, at market prices, average developer margins are currently approximately 14% before direct taxes. If market prices were to drop by 5%, developer margins would be expected to decline by approximately 40%, while a 10% price drop would almost eradicate developer margins by 80% to under 3%. This is notable given that the general economy tends to run on 17% gross operating margins.

Economic literature suggests that high fixed fees and increased tax burdens on residential developers limit private capital investment, reduce risk-taking, and constrain housing supply, leading to market inefficiencies and escalating housing costs. These effects underscore the need for tax structures that consider market dynamics and allow for flexible risk-sharing to promote a more responsive and resilient housing industry.

[6] As a weighted average of new builds across the province.

Fixed fees and increased tax burdens, such as substantial hikes in DCs, create significant disincentives for private investment and risk-taking among residential developers. When facing high, non-adjustable fees, developers encounter reduced financial flexibility, which inhibits their ability to allocate capital effectively across projects and respond to market changes. According to Fischel (2001), high fixed fees deter developers from pursuing lower-margin projects, such as affordable housing, which are inherently riskier and less able to absorb added costs. As a result, developers may avoid certain projects or shift investments towards high-end developments, where returns are more predictable, limiting the overall supply of diverse housing types.

The literature also identifies a "capital rationing" effect caused by such tax burdens, where the upfront financial commitment required to pay large DCs reduces available capital for other critical aspects of development, such as land acquisition, construction quality, or project expansion. Mathur et al. (2004) show that, when faced with increased tax burdens, developers often scale down project scope or delay launches, a behaviour that constrains housing supply and delays returns on investment. This scenario can lead to an inefficient allocation of resources, resulting in fewer housing options in the market, particularly in mid- to low-income segments where demand is most pressing.

Moreover, high fixed fees shift the risk-reward balance, making the industry more cautious and less dynamic. As observed by Been (2005), substantial upfront fees reduce developers' risk tolerance and willingness to invest in projects with longer timelines or uncertain profitability. This trend often drives developers to consolidate resources into fewer, higher-margin projects, reducing industry competition and innovation. The resulting market concentration and reduced investment diversity ultimately translate to fewer housing units overall, raising prices for consumers and amplifying housing affordability challenges.

3.0 CONCLUSIONS

This report highlights the critical financial pressures that the current taxation and fee structures place on the housing market in Ontario. The findings underscore a troubling trend: the tax burden on new housing has increased from 31% of the average purchase price in 2021 to 35.6% in 2024, with significant implications for housing affordability, developer margins, and overall market stability. Governments now derive nearly four times more revenue from the sale of a new home than builders, further exacerbating the challenges faced by the residential construction sector.

Notably, Ontario's new housing tax regime places a burden on new homes that is more than double the average tax burden on the rest of the economy. As builders strive to deliver affordable housing options, the tax burden can approach 45% of the purchase price for homes at the lower end of the market. This regressive system disproportionately affects first-time buyers and lower-income households, limiting the feasibility of affordable housing projects and perpetuating the housing affordability crisis.

A decline in housing prices amplifies these challenges. With 70% of the tax burden being essentially fixed, a 10% drop in new home prices can effectively eliminate the financial viability of development projects, discouraging further investment in new housing projects. This creates a cycle where housing supply becomes increasingly constrained, exacerbating the already severe shortage of affordable housing in Ontario.

The report identifies a pressing need for federal and provincial governments to take a more active role in funding municipal infrastructure. Unlike their federal and provincial counterparts, Ontario municipalities lack access to income, corporate, and most sales tax revenue streams and must rely heavily on property taxes and development charges. This mismatch in fiscal capacity has led to excessive taxation and fees on new housing developments to fund infrastructure, creating a burden that stifles growth and undermines housing affordability.

This report urges immediate action to reform the taxation and fee structures affecting new housing in Ontario. A coordinated, multi-level government approach is essential to create a more equitable, efficient, and sustainable housing market that meets the needs of all Ontarians.

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