FEATURE

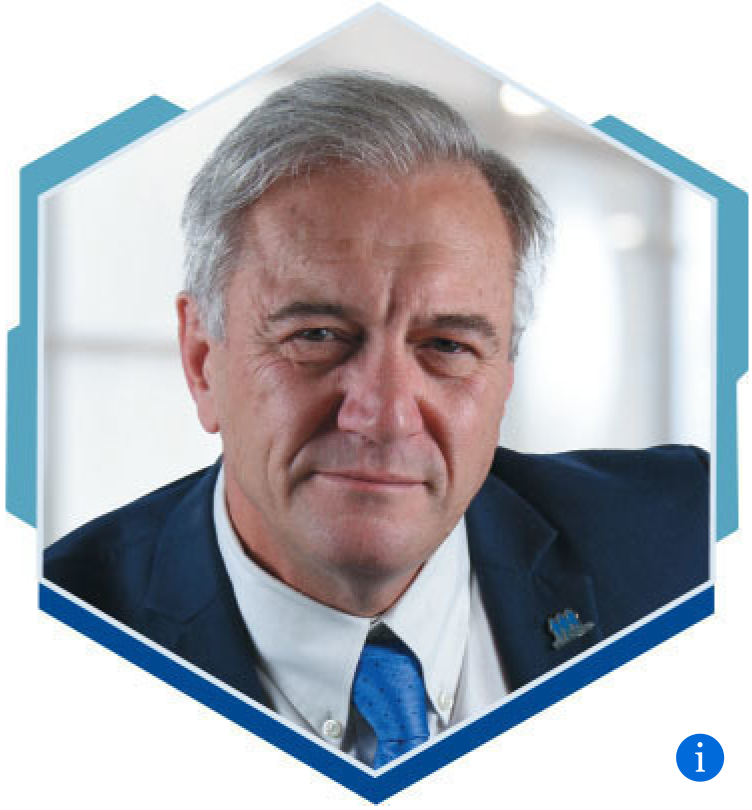
High Taxes, Low Investment

Study shows the federal government is underfunding municipalities and public infrastructure, while reaping the greatest proportion of tax dollars from high-tax homebuilding policies

BY JEFFREY REED

Daily headlines carry the message of Ontario’s affordable housing shortage, which the Ontario Chamber of Commerce says has reached a "crisis point." High housing costs are limiting buying power and spurring migration out of province, says the business group.

Concurrently, a new research report commissioned by the Residential and Civil Construction Alliance of Ontario (RCCAO) reveals that the federal government "is the biggest beneficiary of high-tax burden on new home construction," while remaining "at odds with economic growth, demographic challenges and immigration policies."



The report, entitled, *Will Feds Answer the Call? Infrastructure Investment Lags Amidst Highly Taxed Housing Construction*, was authored by the Canadian Centre for Economic Analysis (CANCEA).

RCCAO is a labour-management construction alliance. Since its formation in 2005, RCCAO has been a leading industry advocate for infrastructure investment, and has commissioned 61 independent, solutions-based research reports to help inform decision makers.

According to RCCAO's latest study, the federal government is underfunding municipalities and public infrastructure, while reaping the greatest proportion of tax dollars from high-tax policies on homebuilding. The economic analysis report concludes that cumulative underinvestment in public infrastructure across all three levels of governments in Ontario reveals the federal government has the greatest capacity to close the gap to the best practice recommendation of four per cent of GDP spending on public infrastructure.

The research shows public infrastructure investment is 30 per cent below what economic analysis recommends, while production taxes on new housing construction are the highest of any sector.

The report lists public infrastructure investments in Ontario as those stemming from waterworks and sewage, transportation engineering, commercial and institutional buildings, other engineering construction, transportation machinery and equipment, marine engineering, electric power, communications networks and oil and gas engineering. It also includes Indigenous, defense and educational services, as well as government business enterprise, hospitals plus nursing and residential care facilities.

"This report continues RCCAO’s work on infrastructure investment," said Nadia Todorova, RCCAO executive director. "We’ve been involved with quite a few reports of this type in order to examine how different levels of government are contributing to infrastructure investment. But this report is unique because we’ve really focused on taxation related to construction of new homes in Ontario, and the level of public infrastructure investment, which supports the population and economic growth."

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RCCAO is calling on the Government of Canada to increase public infrastructure funding to enable immigration and economic growth policies to be realized; provide long-term, sustainable funding to municipalities to enable greater investment and planning in public infrastructure development and maintenance; and continue expansion of immigration programs that welcome skilled construction workers to Canada to address infrastructure and housing labour force challenges.

The following are the key findings from the report:

- The tax burden on new home construction is two times higher compared to the rest of the economy.
- The federal government’s share of new home construction taxes is 39 per cent, while only investing 7.1 per cent in public infrastructure.

- Without immigration, Ontario’s dependency ratio would grow to 70.7 per cent by 2050, roughly where Japan is currently. A high dependency ratio means that there are fewer people of working age to support a dependent population, like children and seniors.
- The total purchase price of a home in Ontario contains at least 30.7 per cent of taxation revenues in total.
- The federal government receives 39 cents of every dollar of tax revenue generated from the construction of a new home in Ontario, yet it pays only seven cents of every dollar invested in public infrastructure in Ontario.

According to Richard Lyall, president of the Residential Construction Council of Ontario (RESCON), "Housing development charges are quite insidious. There has been an explosion of development charges over the past 20 years, in particular over the past decade — astronomical jumps. In Toronto recently, development charges have increased 46 per cent.

"We need to ask, what is a development charge? It’s just a tax, rolled out in the guise of, ‘growth pays for growth and developers must pay their fair share.’ That is complete fiction, because developers don’t pay for it. The consumer pays for it, and therefore it’s a tax — and a tax not adjusted for income in any way. It’s a regressive tax. And, it discriminates against those who can least afford housing," Lyall explained.

The research findings highlight the following key points:

- Since 2010, Ontario has been in a housing affordability crisis, with the unaffordability of homes having increased by 58 per cent. Much of the problem has to do with the availability of new homes.
- Ontario’s population must grow to counter the effects of an aging society. Without immigration, the number of dependents (people who are too young or too old to work) would grow by 40 per cent by 2050, compared to the number of young people who can work and support them. Additionally, by 2050, Ontario would have the same number of non-government workers it had in 2008 without immigration.
- The construction of new homes is vital to support the population’s growth, but the ability of Ontario to build new homes has been decreasing. While the population has grown by 68 per cent since the 1970s, the number of annual new housing completions has dropped by 23 per cent.
- Public infrastructure investment funding required to support growth trends is 30 per cent below what economic analysis would otherwise suggest, compounding the growth problem.
- The tax burden on new housing has significantly increased and now accounts for 31 per cent of the purchase price of a new home in Ontario, twice that of the rest of the economy. Production taxes and taxes paid on the sale of a new home are the primary contributors to this tax burden challenge.
- The government is the largest beneficiary of a new home’s construction, accounting for 31 per cent of the purchase price of a new home, three times more than residential construction builders and housing material suppliers.
- Of the 31 per cent tax burden on a new home in Ontario, the federal government is the largest beneficiary, with a 39 per cent share. However, the federal government contributes only 7.1 per cent of the public infrastructure investment required for

> Ontario to grow. As a result of this inflated growth benefit-to-cost ratio, the federal government is 9.7 times better off than the province and 6.9 times better off than Ontario.

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"The results of our previous studies have been consistent with the fact the feds are taking more than they give back into the system," said Todorova. "And while all three levels of government came together during the pandemic when a lot of cities were suffering with budgetary pressures, there still needs to again be a larger discussion about the way that cost sharing is occurring, and how it can be better."

According to Todorova, high taxes on housing construction and underinvestment in public infrastructure is a problem the federal government is uniquely positioned to resolve. She said Ontario cannot realize economic and immigration growth goals without the support of the federal government increasing funding for public infrastructure.

"Municipalities are still struggling with the deficits in their operating budgets as a result of the pandemic, so that makes it even more important for the federal government to step up and provide some sort of long-term sustainable funding to cities in order to enable greater investment and planning in public infrastructure development and maintenance. And I believe it's incumbent upon all three levels of government to provide for and focus on infrastructure investment."

Like Lyall, Todorova also points to Toronto — Canada's largest municipality — as a hotbed of infrastructure and housing issues.

"Toronto City Hall recently spent just 26.5 per cent of its approved $6-billion capital budget for the first half of 2023," she said. "One could speculate why they're being cautious with their spending is because they're facing this significant budgetary cap, and they don't want to commit to infrastructure until they feel secure that they'll receive allocated funds from both levels of government."

When tackling the topic of Ontario population and housing stock growth, the report states that the challenge of declining rates of new housing relative to population growth is exacerbated further by the stagnant levels of public infrastructure investment. In the past decade, although the Ontario economy has grown in real terms by approximately 18 per cent and its population has increased by 12 per cent, public infrastructure investment levels have remained under invested.

"In fact, research suggests that public infrastructure investment and maintenance should be above four per cent of economic activity to promote growth and sustainability. At current levels, investment in Ontario public infrastructure is 30 per cent below what economic analysis suggests it should be and the levels of investment have not increased in real terms as a percentage of GDP for the past 10 years," the report states.

"The overall question is, how well are we managing growth from an administration point of view?" asked Lyall. "The issue is, we have multiple challenges, the biggest one right now being housing. It's going to be the largest issue for a while because it won't be fixed quickly. And to build housing, you must build infrastructure, too."

In regards to immigration and the need for skilled workers in Ontario, Todorova cautioned that government policies are "never stand-alone. There is always a cascading domino effect. If you have such a high tax burden, then it really has unintended consequences. In order to get immigration targets — to welcome immigrants — you need to provide them with proper infrastructure including housing, transit and transportation."

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According to the RCCAO study, economic growth is a crucial factor for a country's overall development and the well-being of its citizens. This growth brings several benefits, including job opportunities, reduced unemployment rates, increased income levels and higher standards of living for individuals. Moreover, economic growth leads to an increase in tax revenue for the government, which can be invested in public services such as education, health care, and infrastructure, ultimately improving the quality of life of citizens.

Todorova said RCCAO continues to work with all three levels of government, representing industry voices at the table and advocating for action to build the best possible future for Ontario.

"When we talk about infrastructure, it's such an integral part of creating sustainable, livable communities," she explained. "Every aspect of infrastructure touches people's lives on a daily basis, whether it's roads, bridges, transit or transportation. It's clean water coming into your home, and having a roof over your head. That's all infrastructure. And we need to be able to maintain that infrastructure in a state of good repair. It also must be affordable."

And, according to Lyall, there are deeper issues related to our housing crisis and creating badly-needed infrastructure.

"The other problem created with the housing crisis is it has gotten to the point where about 40 per cent of investment in Canada is in residential real estate," he said, "and that has only happened a few times in history at that level. So that affects productivity. It takes away — drains away — money that would otherwise have gone into, for example, investing in new, innovative ventures and creating jobs. And I recall financial crises related to housing crashes in Greece, Spain and Ireland where none of them went well."

"We’re in a real pickle here," added Lyall, "and the sad thing is, one of the reasons why this runaway train was left to merrily go on its way for so long is because most of the decision makers are out of touch."

The CANCEA-authored report summarizes that the current level of federal investment in public infrastructure in Ontario is imbalanced relative to the rewards it receives from housing development. It concludes that the Ontario government and Ontario municipalities are left in a challenging position, with taxation revenues from building new homes failing to match the necessary public infrastructure investment.

"The federal government must address this imbalance by increasing its funding of public infrastructure investment," writes CANCEA on behalf of RCCAO. "This will enable the federal government to support growth while sharing the burden of funding more equitably. Ultimately, this will ensure that the benefits of growth are shared more equally and create a more sustainable economic future for Ontario and Canada as a whole."