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June 29, 2011

**MEMORANDUM TO:** All Municipal Chief Administrative Officers, Clerks and Treasurers

**SUBJECT:** Residential Tenancies Act – Automatic Rent Reductions

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The *Residential Tenancies Act (RTA), 2006* (and the *Tenant Protection Act, 1998*, before it), requires rents to be decreased automatically when property taxes decrease. Municipalities are required to calculate these decreases and send notices to landlords and tenants of buildings with seven or more units advising them of the reductions and when they will take effect. While municipalities are not required to notify landlords and tenants living in smaller buildings with six or less units, they may choose to do so.

This letter is accompanied by a document highlighting the provisions on automatic rent reductions due to property tax decreases and the formula for calculating the rent reduction.

Should you have questions, please contact Stanley Janusas at 416-585-6773 or by e-mail at [stanley.janusas@ontario.ca](mailto:stanley.janusas@ontario.ca).

The form municipalities must use in notifying landlords and tenants about rent reductions was sent out by the Landlord and Tenant Board last year. For additional forms, please contact the Landlord and Tenant Board directly – Susan Benger at 416 585-7483 or by e-mail at [susan.benger@ontario.ca](mailto:susan.benger@ontario.ca).

Sincerely,

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# Automatic Rent Reductions And Tax Decreases: The Residential Tenancies Act

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Under the Residential Tenancies Act, 2006 (RTA), lawful rents are automatically reduced if the municipal property taxes paid by the landlord for the building have decreased by more than 2.49% from the previous year's taxes.

The rent reduction is by operation of law. This means tenants are not required to apply to the Landlord and Tenant Board to obtain permission to reduce the rent.

Municipalities are required to notify landlords and tenants of rental buildings with seven or more units of the percentage rent reduction that applies to all units in the building. While municipalities are not required to send notices to landlords and tenants of buildings with six or fewer units, the automatic rent reductions apply to these buildings as well.

## ***What properties are affected by the automatic rent reductions?***

Most rental residential properties are affected by automatic rent reductions. These include apartment buildings, rented townhouse developments, rented duplexes and detached homes, boarding and lodging homes, mobile home parks, rented condominiums, most care homes, and for-profit cooperatives that are rented.

The automatic rent reductions do not apply to commercial, industrial or recreational properties. Certain types of rental residential properties are also exempt from the automatic rent reduction provisions. These include public housing, non-profit housing projects, non-profit housing cooperatives, certain types of care homes, vacation homes and housing owned by educational institutions.

## ***Timing of rent reductions***

Automatic rent reductions take effect on December 31st of the year the property taxes for the property decreased.

## ***How are rent reductions calculated?***

In calculating automatic rent reductions, the property taxes for the current year are compared to the property taxes for the previous year to determine the percentage that taxes have decreased. The rent reduction must be calculated, if the percentage decrease in taxes is more than 2.49%.

The actual property taxes levied for the rental property are used to calculate the rent reductions. Charges and other levies, user fees, etc, listed in Section 41(2) of Ontario Regulation 516/06 are not included in calculating the rent reduction.

The provincial factor used for property tax assessments in large rental buildings with seven units and more is 20%, while a 15% factor will be used for smaller rental buildings with 6 units or less. These percentages are, on average, the amount that property taxes represent of a landlord's total rent revenue.

To determine the percentage rent reduction in large buildings (seven units or more), the percentage decrease in taxes for the building is multiplied by 20%.

**% rent reduction = % decrease in taxes for building X 20%**

**Example: 2010 taxes for building were \$20,000  
2011 taxes for building were \$18,000**

**Percentage decrease in building taxes is:  $\frac{\$20,000 - \$18,000}{\$20,000} \times 100 = 10\%$**

**Percentage rent reduction is:  $10\% \times 20\% = 2\%$**

To determine the percentage rent reduction in small buildings (six units or less) the percentage decrease in taxes for the building is multiplied by 15%.

**% rent reduction = % decrease in taxes for building X 15%**

**Example: 2010 taxes for building were \$20,000  
2011 taxes for building were \$18,000**

**Percentage decrease in building taxes is:  $\frac{\$20,000 - \$18,000}{\$20,000} \times 100 = 10\%$**

**Percentage rent reduction is:  $10\% \times 15\% = 1.5\%$**

All rental units in the rental building would receive the same % rent reduction.

For example, if the monthly rent is \$800, the landlord and tenant would reduce the rent by \$16 to \$784 in the case of a large building and by \$12.00 to \$788 in the case of a small building.

A condominium building is not a multi-residential unit building for purposes of calculating automatic rent reduction. This means that rent reductions for condominiums are calculated by applying the 15% multiplier used for small buildings, regardless of how many units are owned by a single owner.

### ***When are rent reduction notices sent to landlords and tenants?***

Municipalities must send rent reduction notices to landlords between June 1st and September 15th and to tenants between October 1st and December 15th.

The form municipalities must use in notifying landlords and tenants about rent reductions was sent out by the Landlord and Tenant Board in 2007. Municipalities that no longer have that form can get a copy of it by contacting the Landlord and Tenant Board directly. The Board can be reached by calling toll-free 1-888-332-3234 (outside Toronto area) or at 416-645-8080 (from within the Toronto calling area).

***What if a landlord or tenant disagrees with the amount of the rent reduction?***

If a landlord or tenant feels that the rent reduction is too low or too high and does not accurately reflect their costs, he/she has the option of applying to the Landlord and Tenant Board for varying the rent reduction based on their individual circumstances.

The deadline for submitting the application is the later of:

- § March 31<sup>st</sup> of the year following the date the rent reduction took effect, and
- § The 90<sup>th</sup> day following the day the rent reduction notice was issued (or, if the municipality was not required to issue a rent reduction notice, the 90<sup>th</sup> day after the tax notice was issued).

An application to vary the amount of rent reduction does not stop the rent reduction. The rent reduction continues to be in effect for the entire building. Once the Board resolves the application, the Board's order is effective as of December 31st, when the rent reduction originally took effect. Therefore, any overpayment or underpayment will have to be paid back as rent owing to either the landlord or the tenant.

A landlord or tenant can apply to the Board to vary the rent reduction if any of the following circumstances applies:

- The landlord paid certain charges that were not included when the municipality calculated the percentage rent reduction.
- The landlord pays more or less than 15% or 20% (whichever factor is applicable) of the rent for property taxes.
- The amount of the tax reduction or rent reduction in the municipality's notice is wrong.
- The property taxes for the year under consideration increased or decreased after the rent reduction notice was sent to landlords and tenants.

***Additional information***

The Landlord and Tenant Board provides information to the public through a network of offices across Ontario. The Board can be reached by calling toll-free 1-888-332-3234 (outside Toronto area) or at 416-645-8080 (from within the Toronto calling area).

A copy of the RTA and the regulations can be ordered from ServiceOntario Publications ([www.publications.gov.on.ca](http://www.publications.gov.on.ca)) or can be printed from [www.e-laws.gov.on.ca](http://www.e-laws.gov.on.ca).