



Automatic Rent Reduction

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The *Residential Tenancies Act* has a provision that any significant municipal property tax and charge decreases in a residential complex must be passed on to the tenants in the form of a rent reduction.

The Act requires that the municipality notify **both** landlords and tenants, for residential complexes containing seven or more units that have had a reduction in property tax of 2.5% or more. Landlords must be notified between June 1st and September 15th, and tenants between October 1st and December 15th, that the tenants are entitled to an automatic rent reduction effective December 31.

For properties with less than 7 units, the burden is on the landlord to notify the tenant if the tax decreases by 2.5% or more, as the automatic rent reduction still applies to these complexes. Where this is not done, the tenant may make an application to the Board for an Order compelling a rent reduction.

Notices from the Municipality - The *Residential Tenancies Act* also requires municipalities to notify landlords and tenants of the percentage of rent reduction if the rental property contains seven or more units. Even though municipalities are not required to notify landlords and tenants of buildings containing 6 or fewer units, many municipalities, such as the City of Toronto, will send out such notification letters on their own initiative.

The Calculation - The formula used to determine the amount of rent reduction is established in the *Residential Tenancies Act* Regulations and generally assumes that the amount of property taxes a landlord pays is about 20% of the total rent revenue for buildings of 7 or more units; and about 15% if the building has 6 units or less. The rent reduction is *equal to the percentage decrease in taxes* from the previous year to the current year, and then *multiplied by*

Either **20%** for buildings of **7 or more units,**
Or **15%** if the building has **6 units or less.**

Six and fewer rental units:

If the property taxes are less than 15% of the rental income, the rent reduction will be greater than the tax savings. The ratio of rental income to property tax for small scale landlords (six and fewer rental units) is generally less than 15%, and in fact is usually closer to 10%. In such cases, the dollar amount paid out to tenants in rent reductions will exceed the amount of the dollar tax decrease “enjoyed” by the landlord. To correct this problem an application must be made to the Landlord and Tenant Board for an order to vary the amount of rent reduction.

EXAMPLE 1: 4 UNIT COMPLEX

PROPERTY TAX/RENTAL INCOME RATIO 15%:

Annual Rental Income	\$40,000
2017 Property Taxes	\$ 6,700
2018 Property Taxes	\$ 6,003 (approx 15% of rental income)
2018 Tax Decrease	\$ 697 (10.04% tax decrease)
Rent Reduction	1.51% (15% of 10.04% tax decrease)

In the first example the amount of rent reduction to the tenant is correct, so no action is required other than figuring out the rent reduction amount for the coming year.

In the second example, the 4 tenants will receive a combined rent reduction of \$858. - which is *more* than the \$500 tax decrease for the year.

EXAMPLE 2: 4 UNIT COMPLEX

PROPERTY TAX/RENTAL INCOME RATIO 10%:

Annual Rental Income	\$30,000	
2017 Property Taxes	\$ 3,500	
2018 Property Taxes	\$ 3,000	(10% of rental income)
2018 Tax Decrease	\$ 500	(14.28% tax decrease)
Rent Reduction	2.86%*	(15% of 14.28% tax decrease)

** If the property tax is less than 15% of rental income, the landlord may apply to the Landlord and Tenant Board for an Order to vary (decrease) the rent reduction. In example 2 the Order would vary the rent reduction to the appropriate 1.43% - or 10% of the 14.28% tax decrease.*

Landlord Options

1. If you have received a notice from the municipality advising that the rents are to be reduced - carefully review the notice. Check the amount of tax to ensure that it is the same as stated in your assessment.
2. Check the calculation contained in the letter from the municipality to ensure it is correct.
3. If you discover a discrepancy either in the amount of tax (decrease or increase) or in the calculation, file the **A4 - Application to Vary the Amount of a Rent Reduction** with the Landlord and Tenant Board. The cost of filing this application is \$53.00 if you are a tenant and \$201.00 if you are a landlord. There is also a filing deadline of March 31 of the following year.
4. If the amount of tax is accurate and the calculations are correct but your rental property contains six or fewer rental units, file the A4 - Application to Vary the Amount of a Rent Reduction with the Landlord and Tenant Board. Generally, the ratio of rental income to municipal property tax is 10% rather than the prescribed 15%.
5. If you are simply unhappy about the entire situation - write to your MPP. There is little that can be achieved by filing the A4 Application if the amount of tax is correct, the calculation is correct and the rental property contains more than six units.
6. Finally, many landlords have acknowledged that they will have to increase rents due to the automatic decreases. Some small landlords have stated that they had not taken rent increases to which they were entitled in the past; however, they will be forced to increase rents now to recoup lost revenue due to the automatic rent decrease provision of the *Residential Tenancies Act*.
7. We do not recommend that landlords reach agreements with their tenants to **not** reduce the rent in exchange for **not** giving a rent increase, since the tenant has a whole year to change their mind and reduce their rent, whereas the landlord **cannot go back** and take missed rent

increases, and only has until March 31st to file an A4.

Tenant Options

2.5% or more - Tenants have received notification from the City that specifies a percentage amount by which they are entitled to reduce their rent. These reductions are automatic and do not need to be approved by the Landlord and Tenant Board or the landlord.

2.49% and less - Tenants occupying units in rental properties that experienced a decrease in municipal property taxes below the 2.50% threshold may also take action for a rent reduction. Tenants of these rental units may file an application with the Landlord and Tenant Board seeking a reduction as a result of reduced operating costs.

The **Residential Tenancies Act Fact Sheets** are intended to help landlords learn and understand their rights and responsibilities.

They provide general information not legal advice.