



Automatic Rent Reductions and Tax Decreases

When are rents automatically reduced?

Most tenants do not pay property taxes separately from their rent. In most situations, the rent a landlord charges a tenant includes a portion which helps the landlord cover property taxes. When a landlord’s property taxes are reduced by more than **2.49%** from one year to the next, the *Residential Tenancies Act* (the “Act”) requires that rents also be reduced to reflect the decrease in the landlord’s municipal property taxes. This is called an automatic rent reduction.

If municipal taxes have been reduced by more than 2.49%, municipalities must send a notice of rent reduction to landlords and tenants of residential complexes that have 7 or more rental units. The notice of rent reduction sets out the percentage rent reduction that will be applied to all residential rental units in the complex.

While municipalities are not required to send notices to landlords and tenants of complexes that have 6 or fewer units, the automatic rent reduction rules apply to these complexes as well.

What types of properties are subject to automatic rent reductions?

Most **residential** rental properties are affected by automatic rent reductions, but there are certain types of rental properties that are exempt from these rules. The chart below shows which types of properties can and cannot receive automatic rent reductions:

Rent <u>can</u> be automatically reduced for...	Rent <u>cannot</u> be automatically reduced for...
<ul style="list-style-type: none"> • apartment buildings, • rented townhouses, • duplexes and detached houses, • rooming houses, boarding and lodging homes, • mobile home parks and land lease communities, *see page 2 • rented condominiums, • most private care homes, and • “for-profit” cooperatives that are rented. 	<ul style="list-style-type: none"> • public housing, • non-profit housing projects, • non-profit housing cooperatives, • vacation homes, • some housing owned by educational institutions, • nursing homes • new rental units • commercial, industrial or recreational properties.

***About Mobile Home Parks and Land Lease Communities**

Automatic rent reductions can apply to mobile home parks and land lease communities. However, if the taxes charged for the site are not included in the tenant’s rent, then the amount of rent the tenant pays to the landlord is not affected by a reduction in taxes. In this case the automatic rent reduction would not apply.

Tenants of mobile home parks and land lease communities who receive a notice of rent reduction should discuss the rent reduction with their landlord before automatically reducing their rent.

For more information on rent and other charges for mobile home parks and land lease communities, please refer to the Board’s brochure entitled **Mobile Home Parks and Land Lease Communities**.

How are automatic rent reductions calculated?

To determine if there should be an automatic rent reduction, the property taxes for the current year are compared to the property taxes for the previous year to calculate the percentage by which taxes have decreased.

If the percentage decrease in taxes is more than 2.49 %, then the rent is automatically reduced according to the formulas set out in the chart below:

IF the complex has...	THEN the rent reduction is equal to...
7 or more units	% decrease in taxes for complex multiplied by 20 % = % rent reduction
6 or fewer units	% decrease in taxes for complex multiplied by 15 % = % rent reduction

Why does the formula vary from 20% to 15%?

On average, the amount that a landlord must pay for property taxes in a complex of 7 or more units is equal to 20% of the landlord’s total rent revenue for that complex. The average amount that a landlord must pay for property taxes in a complex containing 6 or fewer units is estimated at 15%.

Note: The rent reductions are calculated by using the actual property taxes charged to a landlord for the rental property. Special charges, penalties, user fees, etc. are not included in the calculation.

Calculating the rent reduction...

Here is an example of the rent reduction calculation for a residential complex that has 7 or more units:

Step 1: Determine percentage of tax decrease

Year 2006 taxes:	\$ 20,000
Year 2007 taxes:	\$ 18,000
Taxes decreased by:	\$ 2,000
The percentage tax decrease is:	$\frac{\$2,000}{\$20,000} \times 100 = 10\%$

Taxes must have decreased by more than 2.49% for the tenants to get a rent reduction. In this case, the taxes have decreased by 10%, so the rents for all units in the complex will be automatically reduced.

Step 2: Determine percentage of rent reduction

Since the complex has 7 or more units, the amount of the rent reduction is 20% of the percentage of the tax decrease. The tax decrease is 10%. Therefore, the rent reduction is $20\% \times 10\% = 2\%$.

If the tenant pays rent of \$ 800 per month, the reduction is $2\% \times \$ 800 = \$ 16$. Therefore, the new monthly rent is $\$ 800 - \$ 16 = \$ 784$.

The rent for all rental units in the residential complex would be reduced by the same percentage (2%).

When are rent reduction notices sent to landlords and tenants?

Where the complex has 7 or more units and the property taxes have decreased by more than 2.49%, municipalities are required to send notices of rent reduction:

- between June 1st and September 15th for landlords,
- between October 1st and December 15th for tenants.

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

Note: Automatic rent reductions do not apply to tenants who take possession of a rental unit after December 31st of the year the property taxes are reduced. This means that, if a tenant agrees to rent a unit before December 31st but the tenancy does not begin until January 1st, the automatic rent reduction, if any, cannot be applied to the tenant's rent.

Do tenants need permission to reduce their rent?

The rent reductions are “automatic”; this means that tenants do not have to apply to the Landlord and Tenant Board (the Board) to have the amount of the rent reduction approved in a Board order. Also, tenants do not have to get permission from the landlord to reduce the rent. However, it is recommended that tenants communicate with their landlord before reducing the rent.

What if you don’t agree with the amount of rent reduction?

If a landlord or tenant feels that the amount of rent reduction is too high or too low, they can apply to the Board to have the amount of the rent reduction varied (see **Application to Vary the Amount of a Rent Reduction – Form A4**, for more information).

A landlord or a tenant could apply to have the amount of a rent reduction varied for any of the following reasons:

1. The landlord paid certain charges, such as user fees, that were not included when the municipality calculated the percentage rent reduction.
 2. The amount the landlord pays in property taxes is not equal to 20% or 15% of the landlord’s total rent revenue (depending on the number of units in the complex).
 3. The amount of tax reduction or rent reduction in the municipality’s notice is wrong.
 4. The property taxes for the taxation year reflected in the notice have either increased or decreased since the notice of rent reduction was sent to the landlord and tenant(s).
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Applying to the Board

The application to vary the amount of a rent reduction is filed using form **A4**. The deadline for applying is the later of:

- March 31st of the year following the day the rent reduction took effect,
and
- The 90th day following the day the **rent reduction notice** was issued.

Note: If a municipality did not issue a notice of rent reduction because a residential complex contains 6 or fewer units, the deadline for applying is the later of:

- March 31st of the year following the day the rent reduction took effect,
and
 - the 90th day after the **tax notice** was issued.
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What happens after the application is filed?

Filing an application to vary the amount of a rent reduction does not stop the rent reduction. It continues to be in effect for the entire residential complex until the Board makes a decision that may affect the amount of the rent reduction.

Applications to vary the amount of a rent reduction are generally resolved by a written hearing. In this type of hearing, the landlord and tenant(s) do not go to a hearing location to present their evidence and submissions to an adjudicator. Instead, the landlord and tenant(s) are given deadlines to file written submissions to the Board. An adjudicator will review the submissions and make a decision based on the evidence provided by the landlord and tenant(s).

The party who files the application must give the other parties a copy of the Notice of Written Hearing and a copy of the application. The Notice of Written Hearing sets out the deadlines to file and respond to written submissions.

Once the deadlines to file and respond to written submissions have expired, the adjudicator will issue a written decision called an order. The Board will mail the order to the landlord and tenant(s) that are listed in the application. Depending on the reasons for the application, the Board might decide that the amount of the rent reduction must be higher or lower, or stay the same.

The Board's order is effective as of December 31st of the year the property taxes were reduced. This means that either the landlord or tenant may have to repay the other for the amount that was either underpaid or overpaid from December 31st to the date of the Board's order.

Example

Here is an example of what might happen if the amount of rent reduction is varied by the Board:

Event	Calculation
On December 31 st , 2007, the rent is reduced by 2% because of an automatic rent reduction.	Original rent: \$800.00 Minus 2%: <u>-\$16.00</u> Reduced rent: \$784.00
The landlord applies to the Board on February 1 st , 2008 because the property taxes are less than 20% of the landlord's total rent revenue.	Rent remains: \$784.00 (until the Board issues an order)
The Board issues an order on April 15 th , 2008, which states that the rent reduction is 1.4%, instead of 2%.	Original rent: \$800.00 Minus 1.4%: - <u>\$11.20</u> Reduced rent: \$788.80
The tenant must now repay 0.6% (2% - 1.4%) of the rent payment for the 4 rent periods of January to April 2008.	0.6% of \$800: \$4.80 x 4 rent periods: \$19.20
The rent is still reduced, but by a lesser amount.	First rent reduction: \$784.00 Varied rent reduction: \$788.80

Example
(continued)

The reduced rent is permanent. This means that if the rent is increased at any time after the rent reduction takes effect, the increase will be calculated based on the reduced rent amount (in the example above, a rent increase would be calculated on \$788.80.)

For More Information

**Contact the
Landlord
and Tenant
Board**

This brochure provides general information only. For more information about the law, or to obtain copies of the Board's forms and publications, you can:

- visit the Board's website at **www.LTB.gov.on.ca**,
- call the Board at **416-645-8080** or toll-free at **1-888-332-3234**, or
- visit your local Landlord and Tenant Board office. For a list of Board office locations visit the Board's website, or call the numbers listed above.