

Calculating Interest on a Rent Deposit EXAMPLES

The *Residential Tenancies Act, 2006* requires a landlord to pay interest on a rent deposit to a tenant annually. The interest rate to be used is equal to the rent increase guideline that is in effect at the time payment becomes due.

Exception: Any interest that is owed for a period before January 31, 2007 is calculated at 6% interest.

Example 1:

A rent deposit of \$700 was collected on June 1, 2007. Interest would become due one year later, on May 31, 2008. The 2008 rent increase guideline is 1.4%. This is how to calculate the interest payable on May 31, 2008.

$$\$700 \times 1.4\% = \$9.80$$

Example 2:

A rent deposit of \$700 was collected on June 1, 2006. No interest has been paid by the landlord. What is the total amount of interest due on May 31, 2008?

Interest on this deposit was due on May 31, 2007 (2007 rent increase guideline was 2.6%). The next interest payment would be due on May 31, 2008. This is how interest would be calculated:

$$\begin{aligned} \text{June 1, 2006 to Jan. 30, 2007: } & \$700 \times 6\% \times (244 \text{ days} \div 365 \text{ days}) = \$28.08 \\ \text{Jan. 31, 2007 to May 31, 2007: } & \$700 \times 2.6\% \times (121 \text{ days} \div 365 \text{ days}) = \$6.03 \end{aligned}$$

$$\text{June 1, 2007 to May 31, 2008: } \$700 \times 1.4\% = \$9.80$$

$$\text{Total interest due} = \$28.08 + \$6.03 + \$9.80 = \$43.91$$

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