

Your Comprehensive Rental Guide

Property tax rate on rental units 75 per cent higher than for homeowners

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CITIZEN ADVERTISING FEATURES

Source: DICKIE & LYMAN LLP, who practice landlord/tenant law and other areas of law.

QUESTION:

Yesterday a notice went up in my apartment building in which a group called Tenants and Landlords for Fair Taxation wrote: "In 2009, the City is planning to increase your apartment's taxes by 5.0 per cent," and "that tax increase will increase your rent."

I thought landlords could only raise rents above the guideline by applying to the rent review board. Do I have to expect a rent increase of five per cent next year?

ANSWER:

Although landlords receive tax bills and send the money to the City, property taxes ultimately are paid by the tenants. Between 15 and 20 per cent of the rent on an Ottawa apartment goes to pay property taxes. The Residential Tenancies Act provides for automatic rent reductions if the building's property taxes fall, and allows landlords to increase the rent when property taxes rise. The effect of supply and demand in the rental market also means that higher property taxes on rental properties lead to higher rents, and lower property taxes lead to lower rents.

When property taxes increase by more than 1.5 times the amount of the annual guideline increase (i.e. by more than 2.7 per cent in 2009), landlords can apply to the Landlord and Tenant Board to pass that increase through to tenants by an above-guideline rent increase.

Property taxes are primarily determined by multiplying the market value of the property by the tax rate for that class of property. In Ottawa there are a number of different classes of property including residential, multi-residential (rental apartments and row housing), commercial, shopping centres, farmland and others. Under strict provincial rules, City Council decides on the tax rates for these different classes of property.

In 2009, residential tenants in Ottawa paid property taxes at a rate that was 1.75 times the residential tax rate; 1.75 is known as the tax ratio for the multi-residential property class. A tax

ratio of 1.75 means that the City tax rate on rental units is 75 per cent higher than the City tax rate for homeowners.

While excess taxation of tenants is common in Ontario, it is not the norm across Canada. Canada's eight largest cities outside Ontario are Montreal, Vancouver, Calgary, Edmonton, Winnipeg, Quebec, Halifax and Saskatoon. All but Edmonton charge tenants the same tax rate as homeowners. Edmonton charges 30 per cent more and is reviewing whether to eliminate the differential.

Tenants and Landlords for Fair Taxation (TLFT) and the Eastern Ontario Landlord Organization have been pushing for many years for reductions in the property taxes that Ottawa tenants pay. On April 22nd 2009, City Council will decide whether to lower the tax ratios for apartment buildings from 1.75 for 2009.

If the City does not lower the tax ratio, the average apartment building will see a five per cent tax increase, and up to 65,000 tenants across Ottawa may face above-guideline rent increases.

Professor Allan Maslove is an expert in public finance at Carleton University. In various capacities he has studied the multi-residential tax situation for many years. According to Professor Maslove, "The same logic that underlies taxing expensive single-family homes at the same rate as lower valued homes (thus producing higher absolute tax levels on the more expensive homes) applies to taxing more expensive (condominium) units in multi-unit buildings at the same rate as lower valued (rental) units. Equality of tax rates is, in fact, the stated provincial policy goal."

If you would like to find out more information about how tenants and landlords are working together to promote fairer property taxes for tenants, you may want to visit the TLFT website at www.tlft.org.

Send questions for rental experts or suggestions for topics to Rental Guide, c/o Pamela Eadie, Ottawa Citizen Advertising Features, 1101 Baxter Road, Ottawa, K2C 3M4 or by e-mail to peadie@thecitizen.canwest.com. Selected questions will be answered in future columns only. For immediate assistance call the Landlord Tenant Board at 1-888-332-3234.