



Amendments to Simplify the Rent-Geared-to- Income Calculation in Social Housing

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To the Ontario Ministry of Municipal Affairs and Housing regarding proposed amendments to Ontario Regulations 298/01 and 367/11 made under the Housing Services Act:

Maytree has been dedicated to creating solutions to poverty since 1982. We work with governments, researchers, the non-profit sector, and community organizations to build strong and vital communities. We welcome the opportunity to comment on the proposed amendments related to the Rent-Geared-to-Income calculation.

Context

On April 17, 2019, the Ontario government launched its Community Housing Renewal Strategy to sustain, repair, and grow Ontario's community housing system, and make it work better for the people it serves. We were pleased to see the government commit a specific housing strategy for those who are not adequately housed through the private market.

The strategy recognizes that the current process for calculating Rent-Geared-to-Income (RGI) assistance is complex and makes it difficult for tenants to understand how their eligibility is calculated and harder for them to take on employment. Meanwhile, service managers and housing providers spend large amounts of time navigating these rules, and assessing and reassessing tenant incomes against the rent scales.

The following submission provides comments and considerations on the proposed changes to the simplification of the RGI calculation, the treatment of child support payments, the earnings exemption, and the minimum rent indexation.

Simplification of the RGI income calculation

Income-tested benefits across Ontario, including social assistance, RGI, Ontario Child Benefit, and the Low-income Individuals and Families Tax Credit, have different ways of calculating income. While the definitions and calculations of income used often reflect the policy goals of the income-tested benefit, they make it difficult for individuals and families with low and/or fluctuating incomes to understand how their total income, including employment earnings and income-tested benefits, is calculated. Further, given the varying claw-back rates for each benefit, it makes it almost impossible for low- and lower-income

people to anticipate how much better off they would be if their employment earnings increase.

As such, we are pleased to see that the province is proposing to simplify the way that RGI is calculated. The current regulations name 61 different types of exempt income, and require service managers to reassess an RGI recipient's income as soon as the household experiences income changes. Undeniably, this creates an administrative burden for service managers as they have to regularly collect detailed information about a household's finances to determine how much rent should be charged.

The proposed regulations intend to calculate a household's RGI rent amount by determining 30 per cent of a household's Adjusted Family Net Income (AFNI), as reported in their tax return. The use of AFNI would align RGI more closely with the approach used for many provincial and federal tax benefits and credits. It would make RGI easier for service managers to administer as they would only be required to complete this calculation annually, and they could do so by reviewing the tenant's most recent tax return. An annualized income test approach would create predictability for individuals and families with low and fluctuating incomes (as they would know how much rent they will be charged over the course of a year), allow them to better understand how their rent amounts are calculated, and lower their marginal effective tax rates as they would not face an immediate increase or change in their RGI rent.

Interaction between social assistance and RGI

However, without a further adjustment, we are concerned that this regulatory change could unintentionally make the system more complicated for some RGI recipients to understand how their rent amounts are calculated, and create more administrative complexities.

Under current RGI regulations, social assistance payments are exempt from the RGI income calculation. As social assistance payments are included in the calculation of AFNI, the proposed regulations should remove social assistance payments from AFNI. If not, the process to calculate RGI rent amounts would be circular for social assistance recipients with some employment earnings—RGI rent levels would depend on social assistance income, and the shelter allowance made available to social assistance recipients would depend on RGI rent levels.

For example, if an individual receiving Ontario Works took on a low paid part-time job, they would report this to their social assistance caseworker, who would reduce their Ontario Works payments accordingly. Then, during the individual's annualized income review for RGI, the service manager would increase the RGI rent amount because the Ontario Works recipient's total income increased. However, the increased rent amount would make the individual eligible for a higher shelter allowance from Ontario Works, which would increase their RGI rent amount. Under the proposed regulations, this cycle would continue perpetually until the individual reaches the maximum Ontario Works shelter allowance.

It is important to note that previous recommendations from the Commission on the Reform of Social Assistance (in 2012) and the Income Security Reform Working Group (in 2017) to move towards an AFNI-based determination of RGI rent amounts was contingent on the simplification of the social assistance rate structure. It is unclear whether the government is intending to simplify the social assistance rate structure. However, if the government decides to do so, they could address the complication identified above.

In the meantime, an adjustment to the proposed regulations could help resolve this problem by deducting social assistance income from AFNI, for the purposes of the RGI income calculation. This adjustment would be straightforward to administer as it could still be calculated using a tenant's tax form by deducting line 145 (social assistance income) from line 236 (AFNI).

Although we support simplifying the RGI calculation in principle, the positive impact will depend on good implementation. Switching from one system to another invariably creates winners and losers. While the new system may be better designed, it is important that those who are made worse off by that change are provided with the supports to adjust. For example, service managers could help households pay their higher rent levels through time-limited transitional support.

Support for tax filing

The proposed regulations would also require households to tax file. Research has shown that low-income households face multiple barriers to tax filing,¹ even though they are the most likely to gain financially from doing so as it will enable them to access federal and provincial benefits and credits that will increase their income.

While we would like to see more lower-income families tax file, any requirement for them to do so should go hand-in-hand with support to overcome barriers to tax filing. For example, service managers could actively enrol or encourage their clients to partake in free tax-filing support services.

Child support payments

The Ontario government's news release that accompanied these regulatory proposals referred to changes in the way that child support payments would be treated in the calculation of RGI rents. It reported that "early steps to improve community housing" would include "protecting tenants who receive child support payments by ensuring their rent is not impacted by payments." The proposed regulations posted on the registry do not include measures that would achieve this and the strategy does not refer to how this early step will be taken. We would welcome clarification on the government's plans for this.

Increased earnings exemptions

We welcome the proposed increase to income exemptions for single adult households from \$900 annually to \$1,800 annually, aligning it with the exemption amount for all other households. This would lower marginal effective tax rates for single adults trying to get a stronger foothold in the labour market.

1 Bajwa, Uttam. "Income tax filing and benefits take-up: Challenges and opportunities for Canadians living on low income." Toronto: Prosper Canada. 2019. <http://prospercanada.org/getattachment/b0a3599b-1b10-4580-bd2f-9887f5165edb/Income-tax-filing-and-benefits-take-up.aspx>

Minimum rent increases

The proposed regulations include an increase to the minimum rent level in RGI housing. The reasons for making this change are not stated either on the regulatory website or in the Community Housing Strategy itself, and seem to be contrary to the objectives of simplification and supporting employment.

Currently, the regulations state that the minimum monthly rent in RGI housing is \$85, which has been in place since these regulations were first introduced in 2003. The proposed change to the regulations would increase this amount annually from 2021 onwards, and would align with the rate allowed in private market units. The regulations would also backdate the initial indexation to 2001, and apply 20 years' worth of indexation. This would increase the minimum rent level by an estimated 50 per cent, to \$130 per month for an unattached single individual. This increase would exclusively affect tenants on the lowest incomes (i.e., those whose employment earnings are low enough that they are paying less than \$130 per month).

It is possible to see a rationale for indexing minimum rent levels to a measure of inflation – it would keep RGI rent levels in line with rising costs for housing providers and with what's permitted in private tenancies. However, if this is the rationale for indexation, it should be applied consistently across provincial government policy (e.g., to social assistance rates, minimum wage, or public sector pay).

While it is difficult to understand the rationale for the proposal to backdate this indexation by 20 years, we are pleased that the higher minimum rent would be phased in over a “multi-year period” so that affected tenants would not experience an instant 50 per cent increase in their rent.

The proposed regulations state that the minimum rent increase will not affect recipients of Ontario Works or ODSP whose monthly non-benefit income is under the “prescribed limits.” Their rents would continue to be determined under the existing “rent scales,” which for a single adult receiving Ontario Works would remain \$85 per month. With this group exempt, only tenants with an income low enough to pay less than \$130 in rent but not eligible for social assistance would be affected. Further details on the potential number and composition of the households that meet this criteria is required to provide comment on the distributional impacts of the proposed regulation changes. We welcome any additional information that the ministry could provide in this regard.

Complicating the RGI system for social assistance recipients

The increased minimum rent would also complicate the RGI system for social assistance recipients as, when their income increases above the “prescribed limits,” they will switch over to the new AFNI-based system (which has higher minimum rents compared to the social assistance rental scales). While the AFNI-based RGI rent calculation will be for low-income individuals and families not receiving social assistance and for social assistance recipients who do have employment earnings that exceed the “prescribed limits,” the maintenance of “rent scales” for social assistance recipients with low employment earnings would create a two-tier system and introduce a complexity in the RGI system. This will make it harder for tenants who experience a fluctuation in income to understand how their rent and social assistance rates will change, and make the RGI rent amounts for service managers more challenging to calculate and explain.

Conclusion

Taken together, the increase in the RGI earnings exemption, minimum rent changes, and move towards an AFNI-based calculation (for those who do not have very low employment earnings and receive social assistance) to determine RGI rent amounts are supposed to help reduce barriers to work and decrease administrative complexity. However, as currently outlined on Ontario’s Regulatory Registry, the proposed changes would create a two-tier system and place social assistance recipients in a circular system of rent increases and benefit increases, which would make it harder for them to enter employment.

Short of changing the rate structure of social assistance, we recommend that the government consider removing social assistance payments from an individual or family’s AFNI. This would make RGI rents lower for recipients, would lower administrative complexity, and would decrease disincentives to work.

We would also welcome greater clarity from the government about proposed changes to the treatment of child support payments and the distributional impact of minimum rent increases. Furthermore, as part of the ministry’s change management and implementation process, we encourage the government to help those affected by the changes through transitional supports and access to tax-filing services.

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