



City of
Peterborough

To: Members of the General Committee

From: Sandra Clancy, Director of Corporate Services

Meeting Date: April 16, 2018

Subject: Report CPFS18-013
Council Remuneration – One-Third Exemption

Purpose

A report to recommend that the 2019 Draft Budget include an increase for Council expense reimbursement in acknowledgement of the fact that elected officials will no longer receive one-third of their remuneration tax free in 2019.

Recommendation

That Council approve the recommendation outlined in Report CPFS18-013, dated April 16, 2018, of the Director of Corporate Services as follows:

That an additional \$10,000, for Councillor expense reimbursement, be included in the 2019 Draft Operating Budget for the Office of the Mayor, for a total budget provision of \$25,000.

Budget and Financial Implications

If the recommendation in this report is approved, the additional cost in the 2019 Draft Budget will be \$10,000. The increased amount would be part of the 2019 budget deliberations by the 2019-2022 Council.

Should Council wish to exercise an alternative option as presented below, the cost to the 2019 Operating Budget will be \$49,579.

Background

One-third tax exemption

Prior to the enactment of **The Municipal Act, 2001**, Section 255 (1) of **The Municipal Act, R.S.O. 1990**, stated that, where an elected member of a Council of a municipality or a local board is paid a salary, indemnity, allowance or other remuneration, one-third of such amount shall be deemed to be for expenses related to the discharge of his or her duties as a member of the Council or such local board. Application of the clause meant that one-third of Council remuneration was exempt from income tax.

Section 283 (4) of **The Municipal Act, 2001** prohibits any part of the remuneration paid to a member of a Council or local board to be deemed expenses incidental to his or her duties as a member of a municipality or local board. Subsection (7), however, allows the former practice to continue if at least once each term Council reviewed the practice at a public meeting and resolved to continue it.

Since that time, the City of Peterborough has approved that resolution each term, the most recent being for the 2015-2018 term. Council passed the following recommendation through Report CPFS15-006 dated March 9, 2015:

That a by-law be passed to authorize that one-third of Council members' remuneration continue to be for expenses related to the discharge of his or her duties as a member of the Council and be tax exempt for the 2015-2018 Council term.

2017 Federal Budget

On March 22, 2017, in delivering the 2017 Federal Budget, the Minister of Finance, the Honourable William Francis Morneau, introduced measures to eliminate tax exemptions for non-accountable expense allowances paid to elected officials, including municipal Councillors beginning in 2019. The Budget Plan stated "tax exemption for non-accountable expense allowances paid to members of provincial and territorial legislation assemblies and to certain municipal office holders...provides an advantage that other Canadians do not enjoy."

As described above, the federal government allowed a portion of an elected municipal officer's remuneration, specifically 1/3 of their salary, to be excluded from their taxable income. The federal government has permitted this tax free exemption in lieu of requiring elected officials to deduct from their earnings, mileage, office supplies and various other eligible employment expenses which they may incur related to their elected office.

Beginning in 2019, the effects of this change will be as follows:

- Elected officials will no longer receive a 1/3 tax free exemption and will begin to pay income tax on their full salary
- Elected officials will be required to pay applicable CPP on the previous 1/3 tax free exemption amount
- In lieu of the 1/3 tax free exemption elected officials will be able to deduct eligible employment expenses they incur for which they have not been reimbursed (local travel, office supplies, etc.) when filing their annual income tax return.

Essentially, in those cases where the 1/3 tax free exemption amount is exactly equal to the eligible and deductible employment expenses, the elected official should not be impacted by the change. If the expenses are less than the tax free exemption, they will be negatively impacted (the higher the individual's tax rate, the greater the impact). Significant effort will be required by elected officials to keep detailed records of employment expenditures.

Both the City and the elected officials will incur additional costs relative to the requirement to remit the employer and employee's portion of CPP and Employer Health Tax (EHT), on the previous 1/3 tax free exemption amount. The annual cost to the Mayor is estimated to be \$6,656 and the additional annual cost to each member of Council is estimated to be \$2,692. The cost to the City will be \$20,307 comprised of additional costs for the employer portion of CPP and EHT, as well as the loss of HST Rebate the City was able to claim under the deemed one-third-expense exemption portion of the remuneration.

Recommendation

Staff recommend that the 2019 Draft Budget include an increase in the Mayor's Budget for reimbursement to individual Councillors for additional expenses that they have not currently been reimbursed for.

Currently, there is a provision of \$1,000 for each Councillor to claim expenses, as well as an additional \$500 to cover the cost of ward meetings for a total of \$1,500. It is recommended that the 2019 Draft Budget include an increase in the provision to \$2,000 plus \$500 for a total of \$2,500. Total incremental impact to the budget would be \$10,000. The Mayor's Draft Budget would be subject to the normal budget review process by the incoming Council.

This will somewhat offset the additional costs Councillors will assume in 2019 through direct reimbursement rather than having to track applicable employment expenses to claim with their annual income tax return.

Alternative Option: Fully Taxable – Same Net Pay

Council could consider reviewing the net financial impact to elected officials resulting from this change with a view towards making Councillors financially whole. As set out in Appendix 1, Columns 3 and 4 show the additional costs the Mayor, Councillors and the City will assume with these changes and Columns 5 and 6 show that the Mayor's income would need to be increased by \$10,300 to \$79,912 and each individual Councillor by \$3,590 to \$32,093. The incremental annual cost to the City over and above the fully taxable – same gross pay scenario is estimated to be \$49,579. The calculations ignore the loss of the HST Rebate and the unique tax situations of individual Councillors whose effects may vary depending on their individual situations.

Should Council wish to exercise this option, the appropriate motion would be as follows:

That effective January 2019, remuneration for elected officials be adjusted, such that the same net pay is received for elected officials on a monthly basis, in recognition of the elimination of the one-third tax free exemption received in acknowledgment of expenses incurred related to the discharge of his or her duties.

Summary

The additional \$1,000 available to each Councillor in 2019 for the reimbursement of expenses will help offset the loss in net pay as a result of the elimination of the 1/3 tax free exemption.

Submitted by,

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Attachments:

Appendix 1 – Estimated Annual Cost As a result of the Elimination of One-third Exemption

Appendix 1

Estimated Annual Cost As a result of the Elimination of One-third Exemption

Estimated Annual Cost As a result of the Elimination of One-third Exemption

Ref	C1	C2	C3	C4	C5	C6	
	Current: 1/3 Exempt		Fully Taxable Same Gross		Alternative Option - Fully Taxable Same Net Pay		
	Mayor	Council	Mayor	Council	Mayor	Council	
1	Annual Remuneration	\$ 69,612.00	\$ 28,503.00	69,612.00	28,503.00	\$ 69,612.00	\$ 28,503.00
2	Additional Pay					\$ 10,300.00	\$ 3,590.00
3	Total	\$ 69,612.00	\$ 28,503.00	\$ 69,612.00	\$ 28,503.00	\$ 79,912.00	\$ 32,093.00
4	Taxable Earnings	\$ 46,408.00	\$ 19,002.00	\$ 69,612.00	\$ 28,503.00	\$ 79,912.00	\$ 32,093.00
5	Non-Taxable Earnings	\$ 23,204.00	\$ 9,501.00				
6	Deductions:						
7	Estimated Tax	\$ (7,423.00)	\$ (1,295.00)	\$ (14,079.00)	\$ (3,541.00)	\$ (17,723.00)	\$ (4,262.00)
8	Estimated CPP		\$ (792.00)		\$ (1,238.00)		\$ (1,415.00)
9	Net Pay	\$ 62,189.00	\$ 26,416.00	\$ 55,533.00	\$ 23,724.00	\$ 62,189.00	\$ 26,416.00
10	Difference			\$ (6,656.00)	\$ (2,692.00)	\$ -	\$ -
11	Cost to City			1 Mayor	10 Councillors	1 Mayor	10 Councillors
12	Salary Cost			\$ -	\$ -	\$ 10,300.00	\$ 35,900.00
13	CPP				\$ 6,244.00		\$ 2,478.00
14	EHT			\$ 452.48	\$ 1,852.70	\$ 200.85	\$ 700.05
15	Loss of HST Rebate			\$ 2,308.00	\$ 9,450.00		
16	Subtotal			\$ 2,760.48	\$ 17,546.70	\$ 10,500.85	\$ 39,078.05
17	Total				\$ 20,307.17		\$ 49,578.90