



**Date:** 14/06/2018

## **MEMORANDUM**

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**To:** Chair and Directors, Committee of the Whole

**And To:** John MacLean, Chief Administrative Officer

**From:** Scott Reid, Chief Financial Officer

**Date of Meeting:** Committee of the Whole\_Jun21\_2018

**File:** 1610-01

**Subject:** Elimination of Non-taxable Portion of Income for Elected Officials

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### **Item for Discussion:**

Elimination of Non-taxable Portion of Income for Elected Officials

### **Background:**

The 2017 Federal Budget directs that the full amount of non-accountable allowances for work-related expenses received by elected officials will be included in income for tax purposes beginning in year 2019. Currently and until 2019, elected officials are allowed to designate one third of remuneration from taxable income, and to recognize it instead as a non-accountable allowance for expenses incurred in the performance of their duties. The exemption applies to one third of both the monthly stipend and meeting attendance fees paid to CRD Directors.

The impact of the new tax treatment, on each Director, will vary greatly depending on the individual's circumstances. Attached to this memo are a couple of case examples:

- Case 1 – Minimum Impact  
Additional Federal and Provincial Taxes payable are less than the minimum non-refundable tax credits available, and no additional income taxes are payable.
- Case 2 – Maximum Impact  
Additional Federal and Provincial Taxes payable attract income tax payments at the highest marginal tax rate, and additional income tax in the amount of \$5,976 would be payable.

These are two simple cases, and individual cases would be impacted by income tax planning strategies and other available deductions from income for tax purposes.

There are a number of scenarios being considered by regional districts and municipalities to address this issue:

- Some contemplate directing elected officials to CRA Form T2200 Declaration of Conditions of Employment (copy attached). The form outlines the types of expenses related to an employee's activities, and notes the amounts which will and will not be reimbursed. The form is part of the documentation required to deduct employment expenses from personal income tax returns. The form is completed and signed by the employer.

- Some contemplate “making whole” elected officials by increasing remuneration sufficiently to offset the additional taxes payable. As indicated above, this would be an administrative challenge due to the varied income and tax circumstances possible. It would also require that CRD staff have intimate knowledge of Director’s income and tax planning strategies in order to calculate the required remuneration increment to offset the increased taxes. In Case 1 cited above, no increase in remuneration would be required. In Case 2, a Director’s remuneration would need to be increased annually by \$11,905 to offset the increased taxes. Additional administrative difficulties would be encountered due to the fact that Directors are paid, at least in part, incrementally for attendance at meetings. Furthermore, the amounts paid as remuneration vary depending on the type of meeting attended, and the number of meetings attended varies depending on individual director’s activities.
- Some contemplate providing an increase in remuneration of the same amount to each of the elected officials. In many cases, the amount of the increase being considered is the amount required to offset the additional taxes payable assuming the lowest marginal tax rates. This approach eliminates most, but not all of the associated administrative burden.

Any increases to Director’s remuneration would need to be funded through increased tax requisitions. To offset additional taxes payable at the lowest marginal tax rates would require an additional \$25,000 annually, based on 2017 Directors’ Remuneration. If all directors were at the highest marginal tax rates, then the amount required to “make them whole” would be approximately \$100,000.

The CRD also claims a GST Rebate on the amount of remuneration currently considered non-accountable allowances for work related expenses, and this too would need to be replaced by additional tax requisitions. The GST rebate amount was approximately \$5,000 for 2017.

### **Attachments:**

- Case 1 – Minimum Impact
- Case 2 – Maximum Impact
- T2200 – CRA