



Date: 26/07/2018

MEMORANDUM

To: Chair and Directors, Director Remuneration Committee
And To: John MacLean, Chief Administrative Officer
From: Scott Reid, Chief Financial Officer
Date of Meeting: Director Remuneration Committee_ Aug23_2018
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Subject: Elimination of Directors' one-third tax exemption.

Item for Discussion:

Elimination of non-taxable portion of income for Elected Officials.

Background:

The following recommendation from the Committee of the Whole meeting, held June 21, 2018, was endorsed at the July 13, 2018 Cariboo Regional District Board meeting:

That the elimination of non-taxable portion of income for Elected Officials be referred to a Committee consisting of Directors Armstrong, Bruce, Cash, and Sorley, to work with staff to come up with recommendations and a communication strategy.

Further, that remuneration be paid, per standing committee rates.

That memorandum, a copy of which is attached, is now brought to the Director Remuneration Committee for review.

The 2017 Federal Budget directs that, starting in 2019, the full amount of non-accountable allowances for work related expenses received by elected officials will be included in income for tax purposes. Currently and until 2019, elected officials are allowed to designate one-third of remuneration as a non-accountable allowance for expenses incurred in the performance of their duties, and to deduct it from income when calculating taxable income.

Some (very few) governments have decided not to increase Director remuneration to offset increased taxes. Of those who have reported remuneration increases to offset the personal tax increases, the increases range from 7% to 18%.

Some of the reported increases will eliminate only the income taxes payable assuming the lowest marginal tax rate, while some have attempted to come up with an average impact on elected officials using recent historical annual individual remuneration amounts.

Some of the reported increases have been determined based on offsetting only the increased taxes payable while some are designed to offset both income taxes and additional CPP payable by the elected officials.

The remuneration increases at the higher end of the scale are, for the most part, also accommodating cost of living increases and market adjustments.

Income tax is payable on all of the increased remuneration amounts. CPP may or may not be payable on the remuneration increases. Elected officials may have sufficient income from other sources such that maximum contribution levels have already been reached, and thus no CPP is payable on incremental income increases from their remuneration as elected officials. Those over 65 years in age may elect not to make CPP contributions in certain situations.

Cariboo Regional District total Directors' Remuneration for year 2017 was \$297,963 of which \$99,321 was considered non taxable as non-accountable expense allowances. Under the new rules, the entire amount would be taxable.

Assuming that all Directors Remuneration is taxed at the lowest combined Federal and Provincial tax rate, remuneration would need to increase by \$24,923 (8.4%) to offset the new taxes payable. Still assuming the lowest marginal tax rate, and assuming also that CPP is payable on all of the additional income, then remuneration would need to increase by \$33,135 (11.1%) to maintain after tax income for Directors.

An 8.4% increase in director remuneration equates to an increase in the tax requisition rate of \$0.0032 per \$1,000 of the net taxable assessed value of land and improvements in the Cariboo Regional District. The increase in the residential tax rate would be \$0.24 per \$100,000.

An 11.1% increase in director remuneration equates to an increase in the tax requisition rate of \$0.0042 per \$1,000 of the net taxable assessed value of land and improvements in the Cariboo Regional District. The increase in the residential tax rate would be \$0.31 per \$100,000.

For reference, if we assume that Directors Remuneration is attracting income tax at the highest combined Federal and Provincial rates (which would imply that CPP maximums have been reached), remuneration would need to increase by \$98,530 (33%), an impact to the tax rate of \$0.0126 per \$1,000 and to the residential tax rate of \$0.93 per \$100,000.

Attachments:

- AIS – Elimination of non taxable portion of income for elected officials.pdf
 - Case 1 – Minimum Impact.pdf
 - Case 2 – Maximum Impact.pdf
 - T2200.pdf