

Background

As part of the 2017 Federal Budget, allowances for members of legislative assemblies and certain municipal officers will be affected, effective for the 2019 taxation year.

Currently Members of Council have a one third (1/3) deemed tax exemption on their earnings as per Canada Revenue Agency guidelines. Therefore fewer taxes are deducted, resulting in a higher take home pay. The City is able to claim an HST rebate on the one third (1/3) exempt portion, resulting in a lower cost to the City.

Effective 2019, the Federal Budget requires that current non-accountable allowances paid to Members of Council be included as taxable income and taxed. The reimbursement of employment expenses (i.e. kilometer reimbursement) remains a non-taxable benefit.

Impact to the City of Greater Sudbury

HST rebate

In 2019 the City will no longer be able to claim an HST rebate on the non-taxable earnings as done in previous years. As a result, in 2019 there will be an increase to the net operating budget of approximately \$20,000.

Salary and employer deductions

As required by section 7(3) of the Remuneration By-law 2016-15F and amended by 2017-15, the City is required to increase the Members of Council remuneration to ensure that Members of Council are effectively compensated at the same rate as provided for in the By-Law, effective January 1, 2019.

Salary

Gross salary costs will increase by approximately \$117,000:

- \$45,000 for Mayor and
- \$72,000 for Councillors (\$6,000 per Councillor {12})
- \$117,000 Total

Employer deductions

In addition, the City must increase its share of deductions for Members of Council relating to CPP, EI, OMERS and EHT due to the elimination of the one third (1/3) exempt portion. The variance is largely due to an increase in the OMERS contribution as earnings are now fully pensionable.

- \$ 33,500 OMERS
- \$ 17,500 Other deductions
- \$ 51,000 Total

The total impact to the City is approximately \$168,000 for salary and employer deductions.

Total financial impact to the City

This will result in an increase to the 2019 budget of \$188,000 (Salary, Deductions and lost HST rebate).

Survey Conducted

Human Resources conducted a survey of 17 municipalities to determine how other municipalities are handling the elimination of the one third non-taxable portion.

Results: 8 municipalities currently do not provide a one-third non-taxable portion, therefore no change to remuneration
2 municipalities have grossed up earnings to effectively compensate members of Council (as is being done by the City of Greater Sudbury)
7 municipalities have not yet determined how they will be handling this change.
17

Impact to Members of Council

The following table illustrates the financial implications to Members of Council and contains basic examples that do not include any additional earnings relating to committees and assumes basic tax exemptions.

	With 1/3 non-taxable		Fully Taxable	
	Mayor	Councillor	Mayor	Councillor
Annual Remuneration	120,746	35,788	165,746	41,788
Taxable Earnings	80,498	23,859	165,746	41,788
Non-Taxable Earnings	40,248	11,929	-	-
Allowances *				
Taxable	6,304	1,840	9,456	2,760
Non Taxable	3,152	920	-	-
Taxable Benefits **	622	185	854	216
Deductions:				
Income Tax	(16,596)	(2,208)	(48,266)	(5,748)
CPP	(2,564)	(1,108)	(2,564)	(2,041)
OMERS	(9,667)	(2,330)	(22,574)	(4,026)
Net Pay	91,919	30,142	92,342	29,973
Difference in net pay			423	(169)
Difference in gross pay			45,000	6,000

* includes items such as car allowance, telephone allowance, internet allowance, etc

** includes life insurance, AD&D

The table indicates that the Mayor's annual gross pay will be increased by approximately \$45,000 while a Councillor's annual gross pay will be increased by approximately \$6,000 to be able to effectively compensate Members of Council at the same net pay with the one third (1/3) deemed expenses now taxable.

Members of Council will benefit with an increase in pensionable earnings which may increase the amount of their OMERS pension.

List of Resources

Federal Budget: Tax Measures – Supplementary Information

<http://www.budget.gc.ca/2017/docs/tm-mf/tax-measures-mesures-fiscales-2017-en.pdf>