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## **Policy C-CC-03 Council Remuneration & Expense Policy Re: Removal of 1/3 Tax Exemption**

Presented by: Kevin Scoble, City Manager

### **RECOMMENDATION(S)**

That Administration draft a Terms of Reference, for Council consideration on September 24, 2018, for the establishment of a Council Remuneration Review Committee for the specific purpose of making recommendations to Council regarding any potential adjustments to the base salaries for the Mayor and Councillors given the changes to federal tax legislation regarding the removal of the 1/3 tax exemption that becomes effective January 1, 2019.

### **ALIGNMENT TO COUNCIL STRATEGIC PRIORITY**

N/A

### **ALIGNMENT TO ADMINISTRATIVE PRIORITY**

N/A

### **ALIGNMENT TO SERVICE DELIVERY**

N/A

### **PURPOSE OF REPORT**

To provide Council with the financial impacts of the removal of the 1/3 tax exemption that becomes effective January 1, 2019 along with recommended and alternative options for Council consideration.

### **COUNCIL (OR COMMITTEE) DIRECTION**

N/A

### **BACKGROUND AND DISCUSSION**

Within the 2017 federal budget, the government announced their intention to remove the 1/3 tax exemption currently afforded to municipal Council Members. This tax change will take effect on January 1, 2019. The excerpt from the 2017 budget document reads as follows:

“Remove the tax exemptions for non-accountable expense allowances paid to members of provincial and territorial legislative assemblies and to certain

municipal office-holders. This exemption is only available to certain provincial, territorial and municipal office holders, and provides an advantage that other Canadians do not enjoy.”

<http://www.budget.gc.ca/2017/docs/plan/budget-2017-en.pdf>

Should no action be taken to compensate Council Members for this change in personal income tax law, the impact to Council members will be a reduction in Net Pay in the amount of approximately \$12,700 for the Mayor and \$3,900 for Councillors.

The options available to Council are as follows:

1. Top up Mayor/Council Member base salaries to **fully** compensate for impact of tax change. Budget impact \$51,900 ~+0.05% tax impact. Council Member Net Pay impact \$0.
2. Top up Mayor/Council Member base salaries to **Partially** (50% for purposes of this example) compensate for impact of tax change. Budget impact \$23,700 ~+0.02% tax impact. Council Member Net Pay impact **-\$6,300** Mayor, **-\$1,900** Councillor.
3. Do not top up Mayor/Council Member base salaries. Budget impact \$0 , tax impact 0%. Council Member Net Pay impact **-\$12,700** Mayor, **-\$3,900** Councillor.

All municipalities will need to determine a path forward on this issue. If nothing proactive is done, the municipality is effectively choosing option 3.

Most municipalities in Alberta have yet to address this issue. Based on initial research (not fully comprehensive), for the municipalities that have addressed this issue, most have chosen to fully top up Mayor/Councillor salaries; however there are a few that have decided (by resolution) to not adjust base salaries. It is unclear the process each municipality went through to reach their decision.

In 2016, as per policy C-CC-03 City Council Remuneration and Expense Reimbursement, Council established the Council Remuneration Review Committee (CRRC) to review various aspects of remuneration and make recommendations to Council. The purpose of this structure is to both include resident input and ensure a transparent and unbiased process. As this issue also addresses Council compensation, it is recommended that Council re-institute this committee, with a narrowed mandate, to specifically address the tax exemption issue. The City of Edmonton also took this approach.

Should Council support the proposed recommendation, to create efficiencies, the process and timelines are structured to align with the annual process of resident appointments to Council committees and would be as follows:

September 24, 2018

Terms of Reference for the “Council Remuneration Review Committee”

presented to Council for consideration of approval.

Mid-October 2018    Advertisement in City Lights for call for applications for all boards and committees.

November 2018      Candidate interviews.

December 2018      Appointment of Committee members by Council.

Quarter 1 2019      Committee meetings and development of recommendations report.

Presentation of recommendations to Council.

Given that the committee will be unable to complete its work until near the end of quarter one 2019 and the fact that the tax change takes effect on January 1, 2019, the committee will also be asked to make recommendations with regards to the effective date and whether it should be retroactive to January 1, 2019.

### **IMPLICATIONS OF RECOMMENDATION(S)**

Financial: There are no immediate financial implications to the recommendation. Once the CRRC has presented their recommendations and Council passes a resolution, the financial implications will be determined at that time.

Legal / Risk: None at this time

Program or Service: None at this time

Organizational: Organization efforts will be required to recruit committee members and support committee activities.

### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

Should Council not support the recommendation contained in this agenda report, the following alternatives could be considered:

1. That the Governance, Priorities and Finance Committee recommend to Council that in order to fully compensate Council Members due to the removal of the 1/3 tax exemption for Municipal leaders, the Mayor's base salary be increased by \$19,500 to \$131,920 and Councillor's base salaries be increased by \$5,400 to \$51,390 effective January 1, 2019 and; that the 2019 budget be increased by \$51,900
2. That the Governance, Priorities and Finance Committee recommend to Council that in order to partially (50%) compensate Council Members due to the removal of the 1/3 tax exemption for Municipal leaders, the Mayor's base salary be increased by \$9,300 to \$121,720 and Councillor's base salaries be increased by \$2,400 to \$48,390 effective January 1, 2019 and; that the 2019 budget be increased by \$23,700

3. That in order to partially (x%) compensate Council Members due to the removal of the 1/3 tax exemption for Municipal leaders, Administration calculate the salary and budget impact and present to Council on October 1, 2018 for approval.
4. That the Governance, Priorities and Finance Committee recommend to Council that no adjustment be made to Council Member base salaries to compensate for the removal of the 1/3 tax exemption for Municipal leaders.
5. Do nothing. This has the same ultimate effect as Alternative 4.

Report Date: September 4, 2018  
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