

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON OCTOBER 9, 2018
FROM:	CATHARINE SAUNDERS CITY CLERK AND ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	ELECTED OFFICIALS REMUNERATION – ONE THIRD NON TAXABLE ALLOWANCE

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer and the City Clerk, the attached proposed by-law (Appendix “A”) **BE INTRODUCED** at the October 16th, 2018 meeting of the Municipal Council to eliminate the “one-third tax free” allowance for Elected Officials.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
--

Board of Control, November 10, 2010, Item # 21, Remuneration for Members of Council and its Local Boards – Continuation of the One-Third Tax Free Allowance

Strategic Priorities and Policy Committee, October 26, 2015, Item # 3 , Remuneration for Members of Council Budgetary Implications of Opting Out of the One-Third Tax Exemption

Strategic Priorities and Policy Committee, August 21, 2017, Item # 3, Final Report of the Council Compensation Review Task Force

BACKGROUND

Section 255 of the former Municipal Act, R.S.O. 1990 provided that one-third of the remuneration to an elected member of council would not be subject to Income Tax. At that time, it was reasoned that one-third of an elected member of council’s remuneration was to cover expenses incident to the discharge of their duties. Although this provision was repealed by changes to Municipal Act, 2001, section 283 (7) allowed for municipalities to continue this practice as long as a by-law was in place prior to Municipal Act, 2001 coming into effect and as long as this by-law was reviewed at least once each Council term thereafter. However, in the event that Council repealed its by-law with respect to its one-third tax exemption, the one-third exemption could not be put back in to place. Furthermore, section 283 (6) of Municipal Act, 2001 goes on to state that should a council repeal this by-law, the repealing by-law shall be effective January 1 of the year after the year in which the by-law is passed.

In 2016, a Council Compensation Review Task Force was established by Council to review, conduct research, and provide recommendations related to Council compensation, which included the one-third tax free allowance. Furthermore, it was identified at that time that the Federal Government was looking at removing the tax exemption for non-accountable expense allowances to certain municipal office-holders (often referred to as the “one-third tax free” allowance).

In 2017, with the work of the Council Compensation Review Task Force well underway, Federal Budget 2017 contained a legislative change to eliminate the “one-third tax free” allowance for elected officials effective January 1, 2019. This legislation received Royal Assent on June 22, 2017 (Bill C 44). At the August 21, 2017 meeting of the Strategic Priorities and Policy Committee,

the Council Compensation Review Task Force presented their Final Report of their review along with recommendations. At its meeting held on August 22, 2017, one of the actions that Municipal Council resolved to be taken with respect to Council compensation was:

- e) notwithstanding that there will be a minor budgetary impact by doing so, the City Clerk BE DIRECTED to bring forward the necessary by-law to eliminate the “1/3 tax free” allowance for Council Members, effective the next Council term.

Based on subsection 283 (6) of the Municipal Act, 2001, an elected member of council would become fully taxable January 1, 2019, as the one-third tax exemption would be eliminated.

Impact of the Elimination of the One-Third Tax Exemption

Ward Councillor

Based on the adopted recommendations of the 2016 Council Compensation Review Task Force, the annual compensation for a Ward Councillor was set at the median full time employment income for Londoners as identified in the 2016 Census which was not available till the fall of 2017. The Task Force identified that based upon the 2011 National Household Survey data, about 35% of Londoners ages 15 years and over worked full-year, full-time with employment income in 2010 and a median employment income of \$47,805 and an average employment income of \$57,112. Based on 2016 Census data, the median employment income in 2015 for full-year full-time workers was \$51,181. As a result, this would set the Ward Councillor annual remuneration at \$51,181 effective for the upcoming term of Council

Table 1 below provides a comparison of what the approximate net “take home” pay in the current term of Council is versus what the approximate net “take home” pay will be in the upcoming term.

Table 1: Council Term Comparison – Ward Councillor

	Current Term: 1/3 rd Tax Exempt	Beginning January 1, 2019: Fully Taxable
Annual Remuneration	\$ 34,033	\$ 51,181
Approximate Net (Take Home) Pay	\$ 29,188	\$ 36,626

Notes: (1) 2018 rates were used for all stipends, benefits and deductions (CPP, Tax, and OMERS only), voluntary deductions are excluded.

(2) Excludes vehicle allowance.

(3) Deductions were calculated using CRA Payroll Deduction On-line calculator (PDOC) based on monthly payments and basic TD1 exemptions

(4) Councillor remuneration of \$51,181 is based on 2016 Census Data of median employment income for full year full time income for London, City, census subdivision. Statistics Canada. 2017. *London, CY [Census subdivision], Ontario and Middlesex, CTY [Census division], Ontario (table). Census Profile. 2016 Census. Statistics Canada Catalogue no. 98-316-X2016001. Ottawa. Released November 29, 2017.*

It should be noted that for Ward Councillors, for the month of December, the approximate net “take home” pay in December will be higher than what will be realized commencing January 1, 2019 as a result of their annual remuneration being fully taxable. As a result of the increase in annual stipend as recommended by the 2016 Council Compensation Review Task Force, a Ward Councillor’s approximate net “take home” pay in the upcoming term of Council will be greater than the current terms approximate net “take home” pay even with remuneration being fully taxable, as illustrated in Table 1 above.

Mayor

The Mayor was excluded from the Council Compensation Review Task Force, therefore there are no changes to the Mayor’s remuneration however the Mayor’s net “take home” pay is impacted by the elimination of the one-third tax exemption effective January 1, 2019. Table 2 below provides a comparison of the approximate net “take home” pay for the Mayoral position during the current term of Council having the one-third tax exemption versus what the approximate net “take home” pay will be in the upcoming term.

Table 2: Council Term Comparison - Mayor

	Current Term: 1/3 rd Tax Exempt	Beginning January 1, 2019: Fully Taxable
Annual Remuneration	\$ 106,030	\$ 106,030
Approximate Net (Take Home) Pay	\$ 83,678	\$ 68,335

Notes: (1) 2018 rates were used for all stipends, benefits and deductions (CPP, Tax, and OMERS only), voluntary deductions are excluded.

(2) Excludes vehicle allowance.

(3) Deductions were calculated using CRA Payroll Deduction On-line calculator (PDOC) based on monthly payments and basic TD1 exemptions

(4) Mayor remuneration of \$106,030 is based on the existing stipend noting that the 2016 Council Compensation Review Task Force scope did not include providing any recommendations on the Mayoral stipend.

As a result of the annual remuneration being fully taxable January 1, 2019, unlike a Ward Councillor, the approximate net “take home” pay will be less than the current approximate net “take home” pay as illustrated in Table 2 above. For the Mayor’s net “take home” pay to remain equal from 2018 to 2019 as a result of the elimination of the one-third exemption, the annual stipend would have to increase from \$106,030 to approximately \$138,025 effective January 1, 2019.

Financial Impacts

As part of the 2018 Annual Budget Update, the 2019 operating budget already accounts for the budgetary impacts associated with the 2016 Council Compensation Review Task Force recommendations.

Conclusion

Based on the Council’s approval of the 2016 Council Compensation Review Task Force recommendations, along with changes by the Government of Canada (Budget 2017) related to the ‘non-accountable expense allowances to certain municipal office-holders (“one-third tax free” allowance)’ that will come into effect January 1, 2019, the attached by-law is being brought forward to eliminate the “one-third tax free” allowance. Provided in this report are tables to illustrate for comparative purposes the impact of the elimination of the “one-third tax free” allowance on the net “take home” pay of elected officials.

PREPARED BY:	RECOMMENDED BY:
IAN COLLINS DIRECTOR, FINANCIAL SERVICES	CATHARINE SAUNDERS CITY CLERK
RECOMMENDED BY:	
ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER	

cc. Julie Kovacs, Manager, HR Systems
Sharon Swance, Manager, Accounting

APPENDIX "A"

Bill No.
2018

By-law No.

A By-law to eliminate the "one-third tax free" allowance for Elected Officials

WHEREAS subsection 5(3) of the *Municipal Act, 2001*, as amended, provides that a municipal power shall be exercised by by-law;

AND WHEREAS section 9 of the *Municipal Act, 2001*, as amended, provides a municipality with the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority;

AND WHEREAS the Municipal Council of The Corporation of the City of London at its meeting on December 20, 2002 passed a resolution declaring Municipal Council's intention pursuant to subsection 255(2) of the *Municipal Act*, R.S.O. 1990 c. M. 45 to continue to have one-third of council remuneration deemed to be expenses incident to the discharge of his or her duties;

AND WHEREAS the Municipal Council of the Corporation of the City of London at its meetings on May 1, 2006, November 15, 2010, and October 27, 2015 further resolved to continue to deem one third of the remuneration paid to members of Council and its local boards expenses incident to the discharge of their duties and therefore tax exempt pursuant to the provisions of subsection 238 of the *Municipal Act, 2001*;

AND WHEREAS subsection 283 (5) of the *Municipal Act, 2001*, S.O. 2001, provides if a resolution of a municipality under subsection 255(2) or (3) of the old Act is not revoked before January 1, 2003, the resolution shall be deemed to be a by-law of the municipality and one-third of the remuneration paid to the elected members of the council and its local boards is deemed as expenses incident to the discharge of their duties as members of the council or local board;

AND WHEREAS subsection 283 (6) of the *Municipal Act, 2001*, S.O. 2001, provides that Council may repeal a by-law under subsection (5);

AND WHEREAS at its meeting held on August 22, 2017, Municipal Council resolved that the "one-third tax free" allowance for Council members be eliminated effective for the next Council term based on recommendations from the 2016 Council Compensation Review Task Force,

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. Municipal Council's resolution passed on December 20, 2002 that was deemed to be a by-law of the municipality by subsection 283(5) of the *Municipal Act*, S.O. 2001 is hereby repealed.
2. Municipal Council's resolution passed on December 20, 2002 is hereby revoked.
3. That the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer be authorized to take any and all administrative acts that are necessary to eliminate the one third tax free allowance.
4. This by-law shall come into force and effect on January 1, 2019.

Passed in Open Council on October 16, 2018.

Matt Brown
Mayor

Catharine Saunders
City Clerk

First Reading –
Second Reading –
Third Reading –