

Date: March 26, 2018
To: Parkland County Council
From: Administration

Subject: Impact of Changes to Income Tax Act on Council Compensation

Council Policy C-AD22, Council Compensation, is subject to the federal government Income Tax Act change eliminating the one-third tax-free option for elected office holders across Canada, effective January 2019. This impacts Parkland County Council Policy C-AD22, Council Compensation, (and Schedule A of the Policy).

Council Compensation		C AD22
Schedule A		
BASIC HONORARIUM		
	1-Jan-17	
Effective Date Mayor	\$82,715	(1/3 non-taxable)
Deputy Mayor	\$59,305	(1/3 non-taxable)
Council Members	\$46,898	(1/3 non-taxable)

Most, if not all, municipalities are looking at the impact of this Income Tax change through the perspective of both fairness to the elected official and appropriateness for the community.

Administration has canvassed a number of local area municipalities. Only a few municipalities responded leaving us to believe that there is a “wait and see” mindset on the Income Tax Act changes for elected officials. Of the communities that did respond the majority are looking at a salary adjustment to mitigate the impact of the Income Tax change. However, we have not heard of any formal decisions being made by regional municipalities at this time, with the exception of the City of Edmonton. The City of Edmonton addressed this issue in a compensation report and adjusted salaries prior to the fully taxable changes under the Income Tax Act change. The City of Edmonton increased the salaries of the elected officials to lessen the impact of the Income Tax Act change.

Parkland County Council, like other municipalities, is in a position to look at options relative to the Income Tax Act change (effective January 2019). To assist Council in considering the Income Tax Act change relative to the Basic Honorarium, Administration provides the following tax estimates on the honorarium and an option for salary adjustment in Appendix A. In addition, Appendix B has been provided to show the tax rates used in the analysis. Should Council decide to explore the matter further, Administration will provide more detailed cost analysis for the 2019 Budget.

Appendix A: Basic Honorarium analysis with Income Tax Act change

Table 1 below shows the current situation of the estimated tax on two thirds of the Basic Honorarium (1/3 non-taxable). The estimated taxes were calculated by using the Federal and Alberta tax rates and reduced by the basic personal amounts as shown in Appendix B.

Table 1. Current 1/3 Non-Taxable

Schedule A - Basic Honorarium		Fed & AB Tax Treatment - Estimate				
Current 1/3 non-taxable	Basic Honorarium (Gross)			Est. Blended Tax Rate	Est. Tax	Basic Honorarium (est. Net)
		Taxable	Non- Taxable			
Mayor	\$82,715	\$55,143	\$27,572	12.8%	\$10,592	\$72,123
Deputy Mayor	\$59,305	\$39,537	\$19,768	10.5%	\$6,222	\$53,083
Council Members	\$46,898	\$31,265	\$15,633	8.9%	\$4,155	\$42,743

Table 2 below provides the same tax calculation on the current Basic Honorarium fully (100%) taxed using the estimated tax rates in Appendix B. This is the impact of the Income Tax Act change for 2019 using 2018 rates.

Table 2. Current at 100% Taxable (2019)

Schedule A - Basic Honorarium		Fed & AB Tax Treatment - Estimate				
2019 100% taxable	Basic Honorarium (Gross)			Est. Blended Tax Rate	Est. Tax	Basic Honorarium (est. Net)
		Taxable	Non- Taxable			
Mayor	\$82,715	\$82,715	\$0	23.0%	\$19,002	\$63,713
Deputy Mayor	\$59,305	\$59,305	\$0	20.0%	\$11,863	\$47,442
Council Members	\$46,898	\$46,898	\$0	17.2%	\$8,080	\$38,818

Table 3 below show the variance between the estimated Net pay in Table 1 and Table 2.

Table 3. Estimated Variance in Net

Schedule A - Basic Honorarium			
Current vs. 100% taxable	Basic Honorarium (Gross)		Basic Honorarium (variance)
Mayor	\$82,715	<i>Variance of current (1/3 non-taxable) to fully taxed estimates</i>	-\$8,409
Deputy Mayor	\$59,305		-\$5,641
Council Members	\$46,898		-\$3,924

Appendix A: Basic Honorarium analysis with Income Tax Act change (continued)

Table 4 provides an estimate of the salary adjustment to the Basic Honorarium that would approximately mitigate the additional tax being imposed by the change to the Income Tax Act in 2019. The total cost of the salary adjustment in this scenario is \$48,190, using five Council Members, one Deputy Mayor, and one Mayor. This amount is approximately \$52,527 if the 9% match of retirement plan contributions is included.

Table 4. Estimate of Salary Adjustment to Basic Honorarium

Option to mitigate impact of Income Tax Act change (salary adjustment)					
Schedule A - Basic Honorarium					
2019 100% taxable	Basic Honorarium (Gross)	Option: Salary Adjustment	#	Total Cost of Salary Adjustment	Adjusted Basic Honorarium (est. Gross)
Mayor	\$82,715	\$12,085	1	\$12,085	\$94,800
Deputy Mayor	\$59,305	\$8,095	1	\$8,095	\$67,400
Council Members	\$46,898	\$5,602	5	<u>\$28,010</u>	\$52,500
		Total		\$48,190	

Table 5 below provides a projection of the estimated Net Adjusted Basic Honorarium using the rates and reduced by the basic personal amounts as shown in Appendix B. This is based on 2018 blended tax rates and will change when calculated in the payroll system that includes additional payroll deductions versus the simple comparison. Additionally, the amounts will change in 2019 with any new income tax rates being made effective.

Table 5. Adjusted Basic Honorarium estimate

Schedule A - Basic Honorarium		Fed & AB Tax Treatment - Estimate				
2019 100% taxable	Adjusted Basic Honorarium (Gross)	Taxable	Non- Taxable	Est. Blended Tax Rate	Est. Tax	Adjusted Basic Honorarium (est. Net)
Mayor	\$94,800	\$94,800	\$0	24.4%	\$23,102	\$71,698
Deputy Mayor	\$67,400	\$67,400	\$0	21.3%	\$14,331	\$53,069
Council Members	\$52,500	\$52,500	\$0	18.6%	\$9,786	\$42,714

*It should be noted that the Retirement Savings deduction and matching may change based on plan rules on contributions for taxable income. This was not included in the analysis.

Appendix B: Tax rates used in analysis

Federal:

Federal tax rates for 2018

- 15% **on the first** \$46,605 of taxable income, +
- 20.5% **on the next** \$46,603 of taxable income (on the portion of taxable income over 46,605 up to \$93,208), +
- 26% **on the next** \$51,281 of taxable income (on the portion of taxable income over \$93,208 up to \$144,489), +
- 29% **on the next** \$61,353 of taxable income (on the portion of taxable income over 144,489 up to \$205,842), +
- 33% of taxable income **over** \$205,842.

Federal basic personal amount = \$11,809.00

Alberta:

Alberta	10% on the first \$128,145 of taxable income, + 12% on the next \$25,628, + 13% on the next \$51,258, + 14% on the next \$102,516, + 15% on the amount over \$307,547
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Alberta basic personal amount = \$18,915.00

<https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/canadian-income-tax-rates-individuals-current-previous-years.html>