



Subject: *Council Remuneration - Removal of Municipal Officers 1/3 Tax-Free Exemption*  
To: Corporate & Residential Committee  
Date Prepared: September 5, 2018  
Related Motions:  
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Approved by: Connie Nolan, CPA, CA, CFE, Chief Administrative Officer

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### Summary

Currently one third of the Councillor salary is deemed to be an allowance for expenses incurred as part of holding office and is deemed non-taxable. The Federal Government announced in their budget to remove the tax exemption for non-accountable expense allowances paid to municipal officers effective January 1, 2019.

### Financial Impact Statement

Financial impact is dependent on the alternative chosen. Recommended alternative will see increases to the annual budget of approximately \$36,000 (\$28,300 salary increase excluding benefits/CPI & \$7,700 increase due to loss of HST Allowance); \$7,800 for 2018/2019 which can be covered in the current budget.

### Recommendation

Staff recommend a one-time 10.5% increase in gross salary for the Councillors including the Deputy Warden and a one-time 14% increase for the Warden to maintain an equivalent net pay with annual adjustments going forward based on the annual CPI for Nova Scotia as per current policy.

### Recommended Motion

*For Council September 18<sup>th</sup>, 2018*

*Move that the Corporate & Residential Services Committee recommend that Council give notice of the intent to make changes at their meeting on September 26<sup>th</sup>, 2018 to the Councillor Remuneration Policy as presented to Committee on September 18<sup>th</sup>, 2018.*

*Council September 26<sup>th</sup>, 2018*

*Move that the Corporate & Residential Services Committee recommend that Council, in response to the federal legislation removing the 1/3 tax exemption for elected officials, approve proceeding with a 10.5% salary increase for all Councillors including the Deputy Warden and a 14% salary increase for the Warden. All increases effective January 1<sup>st</sup>, 2019.*

*And, that Council approve updates to the Councillor Remuneration Policy as presented at Committee on September 18<sup>th</sup>, 2018.*

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## Background

Traditionally a portion of the compensation has been exempt from income taxes with the thought that compensation for elected officials is not all considered salary. Some rationale provided for the 1/3 tax-free exemption was to recognize elected officials were contributing to their communities, attending events at their costs, travelling within their communities without reimbursement.

The Federal Government announced in their budget the 70 year old exemption would be removed effective for the 2019 tax year.

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## Discussion

Given that Council must abide with all Federal legislation, Council has some decisions to make. The following alternatives are being presented for discussion purposes.

### Alternative 1 - Status Quo

If Council decides to keep Councillor salaries the same and comply with the new Federal tax legislation the take home pay for the Councillors at East Hants will be reduced by approximately \$1,600 for Councillors and \$4,000 for the Warden position.

There are no budget implications with this alternative.

### Alternative 2 - Equal Take Home Pay

The Nova Scotia Federation of Municipalities (NSFM) Board has recommended that pre-tax compensation for elected officials be adjusted to allow the same levels of post-tax compensation after the 2019 laws take effect. In order to accomplish this, the salaries for Councillors need to be increased to offset the income taxes that will be payable on the 1/3 of income that was once exempt.

The average increase to Council salaries and travel allowance has been calculated at 10.5% using an average of the current travel allowances being paid to Council under the current policy. The same calculation has been prepared for the Warden's salary resulting in a 14% increase due to the base salary falling in a higher tax bracket (starting at \$29,590 in 2018). See tables in Appendix for backup.

There would be an increase of \$7,800 for this fiscal year and approximately \$36,000 in future years to maintain an equivalent net pay for existing Council. There are sufficient funds in the 2018/2019 budget to implement the salary increase effective January 1<sup>st</sup>, 2019 as the budget anticipated the new legislation.

For Council's information some units have already made this decision as per below:

- Bridgewater has already adopted an increase in salaries to offset additional income taxes
- Kitchener-Waterloo has already adopted an increase in salaries to offset additional income taxes
- West Hants is increasing salaries to offset additional income taxes effective April 2019

### Alternative 3 - Comprehensive Review of Council Remuneration

The current compensation system appears to work well. Should Council decide they want to take a more in depth review (i.e. market review, expense calculation, etc.) of the compensation system, further direction to staff would be required.

### Policy

The current policy has been amended and attached to agenda. Staff have amended the policy based on NSFM's recommended alternative of keeping net take home pay the same. References to the 1/3 tax exemption have been removed from the policy and tables have been updated.

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## Alternatives

Alternative 1 - Make no change to council compensation - net pay will decrease

Alternative 2 - Increase council compensation to keep net pay the same effective January 1<sup>st</sup>, 2019

Alternative 3 - Council may choose to take a different route when evaluating salaries. For example, Council may choose to increase a lesser amount as determined by Council - should Council wish to look at the overall compensation in more depth, further direction to staff and a separate report would be required.

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## Conclusion

The elimination of the Municipal Officers expense allowance will result in a lower net pay effective January 1<sup>st</sup>, 2019. An increase in gross salary would be required to maintain an equivalent net pay.

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## Recommendation

Staff recommend a one-time 10.5% increase in gross salary for the Councillors including the Deputy Warden and a one-time 14% increase for the Warden to maintain an equivalent net pay with annual adjustments going forward based on the annual CPI for Nova Scotia as per current policy.

## Appendix A - 1/3 Tax-Free Exemption Removal

| Warden                    | Current 1/3 Exemption | Same Gross Pay   | Same Net Pay 14.0% Increase |
|---------------------------|-----------------------|------------------|-----------------------------|
| Annual Compensation       | \$ 38,577             | \$ 38,577        | \$ 38,577                   |
| Average Mileage Allowance | \$ 3,030              | \$ 3,030         | \$ 3,030                    |
| Additonal Pay             | \$ -                  | \$ -             | \$ 5,825                    |
| <b>Total Compensation</b> | <b>\$ 41,607</b>      | <b>\$ 41,607</b> | <b>\$ 47,432</b>            |
| Deductions (CPP/Taxes)    | \$ 5,255              | \$ 9,201         | \$ 11,080                   |
| Net Pay                   | \$ 36,352             | \$ 32,406        | \$ 36,352                   |
| Net Difference in net pay | \$ -                  | \$ (3,947)       | \$ -                        |

| Deputy Warden             | Current 1/3 Exemption | Same Gross Pay   | Same Net Pay 10.5% Increase |
|---------------------------|-----------------------|------------------|-----------------------------|
| Annual Compensation       | \$ 24,888             | \$ 24,888        | \$ 24,888                   |
| Average Mileage Allowance | \$ 830                | \$ 830           | \$ 830                      |
| Additonal Pay             | \$ -                  | \$ -             | \$ 2,700                    |
| <b>Total Compensation</b> | <b>\$ 25,718</b>      | <b>\$ 25,718</b> | <b>\$ 28,418</b>            |
| Deductions (CPP/Taxes)    | \$ 2,061              | \$ 3,999         | \$ 4,762                    |
| Net Pay                   | \$ 23,657             | \$ 21,719        | \$ 23,657                   |
| Net Difference in net pay | \$ -                  | \$ (1,938)       | \$ -                        |

| Councillors               | Current 1/3 Exemption | Same Gross Pay   | Same Net Pay 10.5% Increase |
|---------------------------|-----------------------|------------------|-----------------------------|
| Annual Compensation       | \$ 19,911             | \$ 19,911        | \$ 19,911                   |
| Average Mileage Allowance | \$ 830                | \$ 830           | \$ 830                      |
| Additonal Pay             | \$ -                  | \$ -             | \$ 2,178                    |
| <b>Total Compensation</b> | <b>\$ 20,741</b>      | <b>\$ 20,741</b> | <b>\$ 22,919</b>            |
| Deductions (CPP/Taxes)    | \$ 1,063              | \$ 2,627         | \$ 3,241                    |
| Net Pay                   | \$ 19,678             | \$ 18,114        | \$ 19,678                   |
| Net Difference in net pay | \$ -                  | \$ (1,564)       | \$ -                        |

## Appendix B - Proposed Councillor Remuneration

| Travel - Warden               | Current Travel Allowance | Current Salary Including Travel | New Salary (14% Increase) |
|-------------------------------|--------------------------|---------------------------------|---------------------------|
| Up to 25 KM                   | \$ 922                   | \$ 39,499                       | \$ 45,029                 |
| More than 25, less than 50 KM | \$ 1,845                 | \$ 40,422                       | \$ 46,081                 |
| Between 51 to 75 KM           | \$ 2,769                 | \$ 41,346                       | \$ 47,134                 |
| Between 75 to 100 KM          | \$ 3,693                 | \$ 42,270                       | \$ 48,188                 |
| Between 100 to 125 KM         | \$ 4,615                 | \$ 43,192                       | \$ 49,239                 |
| Between 125 to 150 KM         | \$ 5,540                 | \$ 44,117                       | \$ 50,293                 |
| Between 150 to 175 KM         | \$ 6,463                 | \$ 45,040                       | \$ 51,346                 |

| Travel - Deputy Warden        | Current Travel Allowance | Current Salary Including Travel | New Salary (10.5% Increase) |
|-------------------------------|--------------------------|---------------------------------|-----------------------------|
| Up to 25 KM                   | \$ 373                   | \$ 25,261                       | \$ 27,913                   |
| More than 25, less than 50 KM | \$ 745                   | \$ 25,633                       | \$ 28,324                   |
| Between 51 to 75 KM           | \$ 1,120                 | \$ 26,008                       | \$ 28,739                   |
| Between 75 to 100 KM          | \$ 1,493                 | \$ 26,381                       | \$ 29,151                   |
| Between 100 to 125 KM         | \$ 1,866                 | \$ 26,754                       | \$ 29,563                   |
| Between 125 to 150 KM         | \$ 2,240                 | \$ 27,128                       | \$ 29,976                   |
| Between 150 to 175 KM         | \$ 2,613                 | \$ 27,501                       | \$ 30,389                   |

| Travel - Councillor           | Current Travel Allowance | Current Salary Including Travel | New Salary (10.5% Increase) |
|-------------------------------|--------------------------|---------------------------------|-----------------------------|
| Up to 25 KM                   | \$ 373                   | \$ 20,284                       | \$ 22,414                   |
| More than 25, less than 50 KM | \$ 745                   | \$ 20,656                       | \$ 22,825                   |
| Between 51 to 75 KM           | \$ 1,120                 | \$ 21,031                       | \$ 23,239                   |
| Between 75 to 100 KM          | \$ 1,493                 | \$ 21,404                       | \$ 23,651                   |
| Between 100 to 125 KM         | \$ 1,866                 | \$ 21,777                       | \$ 24,064                   |
| Between 125 to 150 KM         | \$ 2,240                 | \$ 22,151                       | \$ 24,477                   |
| Between 150 to 175 KM         | \$ 2,613                 | \$ 22,524                       | \$ 24,889                   |