



Emerging Issues Task Force

Issue Number: 18-02

Date Posted: September 27, 2018

Issue Short Heading: Council Remuneration – Income Tax Treatment

Issue Category:

- Membership issue
- Government (Provincial)
- Government (Federal)
- PSAB
- Other

Issue Description

In 2017 the Federal government announced that the Income Tax treatment of elected officers will change effective January 1, 2019.

How it currently works

Previously, Federal legislation had recognized that a portion of what our elected officers received as part of their income may actually be considered an allowance for incidental charges incurred in the process of carrying out their duties.

Section 81(3) of the *Income Tax Act* (ITA) provides for a portion of an elected municipal officer's expense allowance to be excluded in computing their income, as would the reimbursement of such incidental expenses.

In Alberta, the portion that would qualify for this exclusion is outlined in Section 275.1 of the *Municipal Government Act* (MGA), which deems one third of the remuneration paid by a municipality to a councillor as an allowance for incidental expenses. This deemed portion would not apply or, could be changed through a council bylaw or resolution, within federal limits (up to 50% of the councillor's remuneration).

In summary, unless the municipality has passed a bylaw or resolution stating otherwise, 1/3 of a Councillor's remuneration need not be included in income for income tax purposes.

What's changing?

For 2019, and subsequent taxation years, the full amount of non-accountable allowances paid to elected officers will be included in income. Therefore, the previous one third of remuneration paid that was excluded from income for tax purposes will **now be taxable**.

How does this affect your municipality?

This change will affect the net pay of current elected officers as the previous one third remuneration that was non-taxable will become taxable next year.

Payroll departments will need to ensure these changes are picked up when preparing T4s which no longer exclude one third of the councillor's salary from income in Box 14, and will not have to report the Municipal officer's expense allowance in Box 70 at the bottom of the T4.

Conclusion

For 2019 and onward the previous one third allowance which was non-taxable for elected officers **will be taxable**.

Note: Direct inquiries, commentaries and questions to the GFOA Discussion Forum by clicking on this link: <https://www.gfoa.ab.ca/forum/discussion/342/council-remuneration-income-tax-treatment>. You will be taken directly to this conversation.