

Financial analysis of the elimination of one-third tax exemption for elected officials

The impact of the elimination of the one-third tax exemption on individual elected officials will vary from individual to individual depending on the remuneration they receive from the municipality as well as their own income combined.

FCM's [*Change in "one-third" federal tax exemption for elected officials: A guide for Canadian municipalities*](#) outlines a number of options for municipalities to take in responding to this change. The scenarios outlined below are intended as examples of the dollar amounts involved should a municipality decide to in adjust pre-tax compensation for elected officials in 2019 to maintain the same after tax compensation of 2018.

#1: Honorarium is \$1,000 (and assuming a 30% combined tax rate)

Prior year:

Tax-exempted income: $\$1,000 * 1/3 = \333

Tax being paid (30% tax rate): $(\$1,000 - \$333) * 30\% = \$200$

After-tax amount: $\$1,000 - \$200 = \$800$

Current year:

How much would the municipality need to increase the rate in order for an elected official to receive the same after tax amount:

After-tax amount: \$800

Pre-tax amount (30% tax rate): $\$800 / (1 - 30\%) = \$1,143$

New rate = Pre-tax amount = \$1,143

Net increase of the rate: $\$1,143 - \$1,000 = \$143$

The percentage of increase: $\$143 / \$1,000 = 14\%$

#2: Honorarium is \$250 (and assuming a 30% combined tax rate)

Prior year:

Tax-exempted income: $\$250 * 1/3 = \83

Tax being paid (30% tax rate): $(\$250 - \$83) * 30\% = \$50$

After-tax amount: $\$250 - \$50 = \$200$

Current year:

How much would the municipality need to increase the rate in order for an elected official to receive the same after tax amount:

After-tax amount: \$200

Pre-tax amount (30% tax rate): $\$200 / (1 - 30\%) = \286

New rate = Pre-tax amount = \$286

Net increase of the rate: $\$286 - \$250 = \$36$

The percentage of increase: $\$36 / \$250 = 14\%$