

Please note that the following Policy Statement, although correct at the time of issue, may not have been updated to reflect any subsequent legislative changes.

GST/HST Policy Statement

P-097R2 Expense allowances of elected municipal officers and school board members

Date of Issue

December 19, 2000

This policy statement cancels and replaces P-097R dated April 28, 1995

Subject

**EXPENSE ALLOWANCES OF ELECTED MUNICIPAL OFFICERS
AND SCHOOL BOARD MEMBERS**

Legislative Reference(s)

Subsection 123(1) definition of “municipality”, subsection 259(3), and section 174 of the *Excise Tax Act*; paragraph 6(1)(b) and subsection 81(3) of the *Income Tax Act*

National Coding System File Number(s)

11650-6

This policy statement clarifies the entitlement of a municipality or a school board to a partial rebate under the *Excise Tax Act* (the “ETA”) in respect of an allowance paid to an elected municipal officer or a school board member.

Issue and Decision:

Pursuant to subsection 81(3) of the *Income Tax Act* (the “ITA”), an allowance for expenses incident to the discharge of duties that is paid to a person (the recipient) as an elected officer of an incorporated municipality, municipal utilities board, commission or corporation or other similar body, or as a member of a public or separate school board or similar body governing a school district, does not constitute salary or remuneration to the recipient except to the extent that the allowance exceeds one-half of the amount paid to the recipient as salary or remuneration by the municipal corporation or the body (the employer) of which the recipient is an elected officer or member. Subsection 81(3) of the ITA parallels paragraph 6(1)(b) of the ITA, in that both provisions describe certain allowances which are not required to be included in the income of the recipient.

A GST/HST public service body rebate is payable in respect of a non-accountable expense allowance paid to a municipal officer or school board member that is not included in the officer's or member's income by virtue of subsection 81(3) of the ITA, provided that the allowance meets the conditions set out in section 174 of the ETA. In accordance with section 174 of the ETA, where a municipality or a school board is authorized by provincial legislation to pay a non-accountable expense allowance to an officer or member, the municipality or school board is deemed to have received a supply and to have paid GST/HST on the supply equal to 7/107 or 15/115 of the amount of that allowance. The municipality or school board is eligible for a public service body rebate for the GST/HST deemed to have been paid where the non-accountable expense allowance is:

- reasonable;
- not included in the officer's or member's income by virtue of subsection 81(3) of the ITA; and
- used for supplies acquired in Canada which are all or substantially all taxable (other than zero-rated), or for the use of a motor vehicle in Canada, in relation to the activities of the municipality or school board.

This policy applies where the non-accountable expense allowance is a limited and predetermined amount paid by a municipality or school board to an officer or member for the expenses related to the activities noted above. The entire allowance must be under the complete control of the officer or member with no requirement to provide receipts or documentation substantiating how the allowance was spent.

SAMPLE RULING

Statement of Facts

A municipality pays the mayor \$60,000 annually, of which \$20,000 represents a non-accountable expense allowance for the purposes of subsection 81(3) of the ITA. The non-accountable expense allowance is authorized by the provincial Municipal Act. The allowance is a limited and predetermined payment made by the municipality to enable the mayor to defray expenses in respect of the mayor's office. The mayor is not accountable to the City Council for how the money is used, nor is the mayor required to provide receipts or documentation substantiating how the money was spent.

Ruling Requested

The \$20,000 non-accountable expense allowance paid to the mayor, as authorized by the Municipal Act, is an allowance and the municipality is entitled to a partial rebate of the tax deemed to have been paid which is calculated as 57.14% of 7/107 (for a GST rebate)

or 57.14% of 15/115 (for an HST rebate where the municipality is located in a participating province other than Newfoundland¹) of the allowance.

Ruling Given

Since the total non-accountable expense allowance of \$20,000 paid to the mayor was not included in the mayor's income pursuant to subsection 81(3) of the ITA, as long as the allowance was reasonable and used in relation to the municipality's activities for supplies acquired in Canada which are all or substantially all taxable (other than zero-rated) or for the use of a motor vehicle in Canada, pursuant to section 174 of the ETA, the municipality will be deemed to have paid tax equal to 7/107 or 15/115 of \$20,000, i.e., the amount of the allowance. Accordingly, the municipality will be entitled to a rebate of 57.14% of the tax deemed to have been paid in respect of the allowance, calculated as follows:

$$\$20,000 \times 7/107 \times 57.14\% = \$747.63 \text{ GST rebate}$$

$$\$20,000 \times 15/115 \times 57.14\% = \$1,490.60 \text{ HST rebate}$$

¹ Municipalities in Newfoundland are entitled to claim a rebate of 57.14% of the federal component (7%) of the HST.