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Deferred Salary Leaves



Background

A Deferred Salary Leave Plan (DSLP) is a way to defer a portion of salary, and the related income tax, to finance an unpaid leave of absence.

There are substantial administration needs which must be coordinated between the employing board of education, a banking institution, the teacher and all benefits administrators. In addition, the Canada Revenue Agency, through the *Income Tax Act* and the *Income Tax Regulations*, places a number of stipulations on deferred salary leave plans which must be followed in order for the teacher to reap the benefits of deferring income to the year of leave. Teachers should also check the provisions in their local agreement for conditions for deferred salary leave plans which may be unique to their plan.

Beginning the Process

The first step in planning a deferred salary leave plan should be to check whether the local agreement contains provisions related to such plans. Where such provision exists, in addition to board approval of the leave, there may be required qualifications for acceptance, restrictions as to the number of teachers who may enter a plan in a year and/or lead time specified for entry into a DSLP and perhaps other conditions. Teachers should also be aware that not all agreements provide for return to the same or a comparable position.

Where no provisions exist in the collective agreement, the board will still have to approve an unpaid leave of absence.

Regulations

Deferred Salary Leave Plans fall under Section 248(1) of the *Income Tax Act* and paragraph 6801(a) of the *Income Tax Regulations*. A DSLP must meet all the following conditions:

- a written agreement must be made between the teacher and the board;
- the purpose of the arrangement must be to fund a leave of absence;
- the period of the leave cannot be taken immediately before retirement;
- a maximum of 33 1/3% of the teachers' gross salary may be deferred in one year;
- the leave of absence must not be less than six consecutive months unless it is for full-time attendance at a designated educational institution, in which case the leave of absence must not be less than three consecutive months;
- the leave of absence must begin no later than six years after the date on which the salary deferral begins;
- during the leave period, the teacher cannot receive any salary or wages from the board, other than the amounts by which the teacher's salary under the plan was deferred or is to be reduced, and reasonable fringe benefits; and
- the teacher must return to work after the leave for a period that is not less than the length of the leave.

The deferral period can be "suspended" or "interrupted," for example, during a maternity, parenting or adoption leave period providing that the deferral period and the "interrupted" time do not exceed six years in total. However, resignation from teaching and termination of contract both result in withdrawal from the plan. These, along with voluntary withdrawal from the plan, result in full taxation of all deferred salary plus all other income in the taxation year of the withdrawal.

Regulation 6801 allows teachers to take a five-month semester leave and count either July or August to meet the minimum six-month requirement.

All amounts held under the arrangement must be paid to the teacher no later than the end of the first taxation year that begins after the deferral period. For example, if the deferral period ends June 2006, the teacher must receive the deferred amounts prior to December 31, 2007.

The *Income Tax Act* and other regulations can change at any time.

Administration

A teacher may administer a self-funded deferred salary leave plan provided that the leave has been approved by the employing school board. This type of arrangement will not provide a means of deferring income tax but may be eligible to be purchased for pension purposes provided the teacher can demonstrate that systematic savings took place during the deferral period and other criteria are met. For more information about purchasing your self-funded deferred salary leave, contact your pension plan administrator.

Salary During Deferral and Leave Periods

During the deferral period, a teacher would continue to receive their normal salary, less the deferred amount. Full service accrues during this period for increment purposes.

Salary during the leave period would consist of the total sum of amounts deferred plus interest. The leave period does not automatically count as experience for increment purposes. However, the provision for an incremental credit may be bargained locally.

The following table provides an example of the financial implications of various deferral periods:

# of Years Salary is Deferred	Year of Leave	% of Gross Salary Deferred each year	% of Gross Salary Received in each Deferral Year
1	2nd	33 1/3 *	66 2/3
2	3rd	33 1/3 * (1/3)	66 2/3
3	4th	25 (1/4)	75
4	5th	20 (1/5)	80
5	6th	16 2/3 (1/6)	83 1/3
6	7th	14 (1/7)	86

* maximum allowed

Benefits and Statutory Deductions

Benefits/Deductions	During the deferral period	During the leave period
Income Tax	<ul style="list-style-type: none"> applied on the portion of salary received, plus interest on the deferred amount, if any 	<ul style="list-style-type: none"> applied on the deferred amount received plus any interest amount not already calculated
Employment Insurance	<ul style="list-style-type: none"> contributions based on gross salary (salary received plus deferred amount) 	<ul style="list-style-type: none"> no deductions are taken as the period for leave is not counted towards insured employment for EI purposes. Eligibility for EI benefits would be restored once the teacher had worked the minimum number of insurable hours (between 420 and 910 hours) in the 52 week period prior to a claim for EI benefits <ul style="list-style-type: none"> EI regulations do not allow a teacher under contract to collect EI benefits excepting maternity, parental, and sick leave benefits. Consult a member of the Administrative Staff at either STF office if you find yourself in this situation.
Canada Pension Plan	<ul style="list-style-type: none"> contributions based on the portion of salary received 	<ul style="list-style-type: none"> contributions based on deferred amounts received
	<ul style="list-style-type: none"> may have an impact on the CPP benefit (disability or regular) 	
Sick Leave	<ul style="list-style-type: none"> accrues at normal rate 	<ul style="list-style-type: none"> no accrual during leave period <ul style="list-style-type: none"> time accrued prior to leave period is not accessible or forfeited during the leave
Income Continuance Plan	<ul style="list-style-type: none"> premiums and benefits based on gross salary (salary received plus the deferred amount) 	<ul style="list-style-type: none"> as a member of the Income Continuance Plan, coverage is optional during the leave period. To continue coverage you must submit an application for <i>Extended Coverage</i> to the STF within 30 calendar days of the date coverage would otherwise cease. Once approved, premium payments will be arranged with and directed through the ICP office.
Group Life Insurance	<ul style="list-style-type: none"> coverage continues 	<ul style="list-style-type: none"> to continue coverage you must apply to the Teachers' Superannuation Commission by enclosing a copy of the letter from the board of education granting the leave and paying full premiums by the end of September
Teachers' Dental Plan	<ul style="list-style-type: none"> coverage continues - claims should be forwarded directly to SunLife Assurance Company. Dental plan inquiries should be directed to 1-800-361-6212 	
Members Health Plan	<ul style="list-style-type: none"> coverage continues 	<ul style="list-style-type: none"> coverage continues; advise the Plan of your change in circumstances by completing and returning an <i>Information Change Form</i>
Superannuation	<ul style="list-style-type: none"> contributions continue based on gross salary 	<ul style="list-style-type: none"> no pension contributions will be deducted during the leave period unless you make the necessary arrangements with your board to remit contributions on your behalf monthly you may purchase a period or periods of time up to one year of service coinciding with the period of the leave after the completion of your leave. Pension contributions are based on salary you would have earned had you been teaching during the period of the leave. Contact your pension plan administrator for more information.
RRSP Contribution Room	<ul style="list-style-type: none"> the amount of income deferred is not counted as earned income for the purposes of calculating your RRSP contribution limit and may result in a decrease in your RRSP contribution room for the year or subsequent year 	<ul style="list-style-type: none"> deferred amounts are considered earned income when received
STF Fees	<ul style="list-style-type: none"> payable on gross salary (salary received plus the deferred amount) 	<ul style="list-style-type: none"> no deductions while on leave

This summary contains general information only. In the event of a discrepancy in interpretation, the applicable legislation or collective agreement is the final authority. For further information contact an STF office or visit the STF website at www.stf.sk.ca.

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