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Another option for retirement savings

Government offering provides protection from employee investment losses

By PETER MERRICK

Are you familiar with the Canada Customs and Revenue Agency's Tax Waiver Form? This form can provide immediate tax relief to employees who want to invest early or systematically into RRSPs.

In essence this form requests the federal government to authorize a payroll administrator at a company to reduce taxes that are usually deducted from a employee's pay cheque at source and puts it right back into their pockets or into their RRSPs.

The use of this form by employees will become more popular, and even encouraged by employers, as securities and pension regulators across Canada start to examine the fiduciary responsibilities of employers to provide protection to employees against losses in company sponsored Group RRSPs, defined contribution plans, deferred profit sharing plans, employer profit sharing plans and other non-retirement savings plans — an issue receiving more attention in the wake of the Enron Corporation fiasco.

Employers may begin shying away from offering these types of employee benefits after learning of possible liabilities that company-sponsored saving plans may unwittingly create. Liabilities that have nothing to do with a company's core business.

Recently, the Joint Forum of Financial Market Regulators of Canada released a report regarding em-

ployer sponsored savings plans which includes one statement that is sending chills down the spines of many HR managers and pension and Group RRSP providers.

The report, released April 2001, states: "It is not proposed that plan administrators and employers would be held harmless for investment losses of members, if the principles were followed."

These new proposed regulatory principles might prompt many employers to throw up their hands in frustration and cease offering employer-sponsored savings plans altogether, and substituting in their place salary and bonus increases that don't carry with them the same fiduciary responsibilities and liabilities.

Increasing RRSP participation

Employers offer company-sponsored savings plans because they want to award loyal employees and encourage their people to save for retirement.

One way some Canadian employers are meeting the aim of encouraging employees to save for retirement, while also reducing corporate fiduciary responsibilities, is not to promote, administer or offer any type of company-sponsored savings plans at all. Instead, these companies are opting to write cheques directly to an employee's personal RRSP at a RRSP provider of the employee's choice such as: financial planning firms, banks, trust companies, insurance companies, mutual fund companies or online

brokerages. The only condition these companies place on their contributions into an employee's RRSP is to have proof provided that an RRSP is active.

Having an employer contribute directly into an employee's individual RRSP can be a little tricky since CCRA only allows individuals not corporations to make contributions into these plans.

Companies are able to get around this by raising employees' salaries to match their contributions. The tax on this pay increase earmarked for an RRSP can be avoided if the employee or company submits a CCRA Tax Waiver Form regarding these contributions.

Downsides

There are some downsides to this approach. The company will be giving employees complete control over the firm's contributions to workers' RRSPs. Employees choose how they will invest this money, and have complete autonomy whether the money remains or if it is withdrawn from their retirement plans.

In addition, employees who earn less than \$40,000 will be subjected to CCP and EI premiums increases. Employees who earn more than this amount will not be effected.

The details

Here's how the CCRA Tax Waiver would work:

- A CCRA Tax Waiver form will have to be filled out with both the employee's contact information and

that of the person CCRA will send approval to at your company. The company contact should be the person who will reduce the employee's taxes at source.

- On the form the amount that is to be contributed into the employee's RRSP must be indicated. For purposes of this waiver, annual RRSP contributions cannot be less than \$2,500 or CCRA will reject the application.

- There are several documents that must be included when the CCRA Tax Waiver is submitted to the government, including proof of the employee's income and an RRSP statement or receipt showing that an RRSP contribution has been made or will be made on behalf of the employee for the year applied.

- Lastly, not all tax filings are processed at the same CCRA office, so CCRA should be contacted at 1-800-959-8281 to find out where the form and its supporting documents should be sent.

The CCRA Tax Waiver Forms can be used to reduce taxes of employees for other than their RRSP contributions. This same form can be submitted to CCRA to reduce taxes at source for those employees who are paying child-care expenses, alimony, employment expenses and interest expenses on investment loans.

Peter Merrick is a certified financial planner and an employee benefit specialist. To request a free Web-enabled CCRA Tax Waiver Form contact pmerrick@gpcapital.com, (416) 677-6611 or www.petermerrick.ca.