Why Offering TFSAs and RRSPs as part of your Employee Share Plans Benefits your Company and Employees

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Executive Summary

Are you thinking of launching a new Employee Share Purchase Plan (ESPP) or adding tax-effective accounts such as Tax-Free Savings Accounts (TFSAs) and/or Registered Retirement Savings Plans (RRSPs) to your existing plan?

This white paper explains the benefits of offering a TFSA and/or RRSP along with your ESPP, the differences between each and how they can help meet the financial goals of your employees. If you want to boost participation in your ESPP, ensure that the account types offered deliver maximum tax benefits to your employees.

Benefits of ESPPs

Management:

- Attract, retain, and motivate employees.
- Focus employees on key company objectives.
- Drive shareholder value.

Employee:

- Broad ownership allows employees to participate in growth.
- Ownership motivates and rewards employees.
- Employees are more satisfied and engaged.

Shareholder:

- Aligns employee motivation with shareholders.
- Balance broad ownership with dilution.
- Highly correlated with shareholder returns.

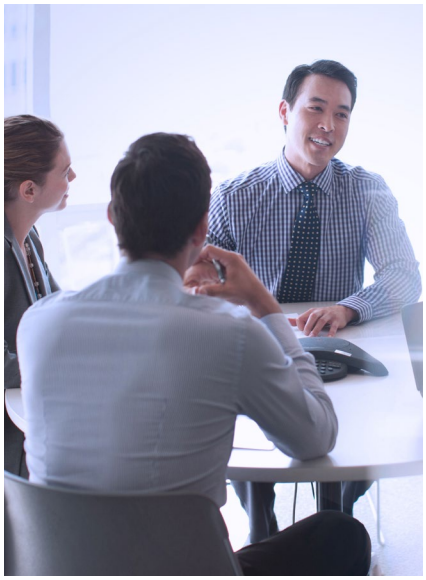
The advantages of including TFSA and RRSP options in employee share plans

TFSA and RRSP offerings enable employees participating in your ESPP to maximize their investment while minimizing taxation.

If your ESPP includes the option of a TFSA, then any income earned by shares held in the employee's TFSA will be tax-free. Dividends paid on shares held in the TFSA are non-taxable and when an employee sells the shares, any capital gains are also tax-free.

If your ESPP includes the option of an RRSP account, employees can make payroll deductions from pre-tax income. In this case, the employee may be able to raise their contribution level.

For example, if an employee in a 30% income tax bracket contributed 100 CAD per pay period towards the non-registered component of an ESPP, the employee could instead contribute 142.85 CAD per pay period to the RRSP component without any change in their net pay cheque. This means that without any effect on their net income, the employee will be purchasing over 40% more shares. In addition, any income earned within the RRSP is also tax-deferred.



How your equity plans administrator can help when offering a variety of accounts to your employees

Choosing an equity plans administrator who can act as the trustee for both TFSA and RRSP accounts makes it easy for you to offer a range of account types within the same ESPP. This way, employees can select the type of account that best suits their financial circumstances and future plans, whether it is taxable (ESPP), tax-free (TFSA) or tax-deferred (RRSP). Your plan trustee is responsible for drafting the corresponding application form and Declaration of Trust, as well as for obtaining Canada Revenue Agency approvals at the outset of a new plan.

What to look for when choosing your ESPP administrator

Enrollment and day-to-day administration of your ESPP offering, including TFSA or RRSP options, can be handled by both the trustee and the plan administrator.

To simplify the everyday administration of your plan, look for a provider that can deliver the following:

- Automated employee enrollment
- Integration of various account types, including TFSAs and RRSPs, within the plan
- Intuitive web interface for participants
- Service offerings that reduce the administrative effort required by your company
- Seamless integration of the systems of your plan provider with your payroll and/or Human Resources Information System (HRIS)
- Professional and knowledgeable customer service
- Insider tracking and blackout enforcement
- Timely and robust reporting

Comparing ESPPs, TFSAs and RRSPs

The comparison below shows the differences between the features of a non-registered regular ESPP, and TFSAs and RRSPs when they are part of an ESPP.

Feature	ESPP	TFSA	RRSP
Tax deductible contributions	No	No	Yes
Limited contribution amount	Depends upon plan rules	Yes	Yes
Contribution limit based on income	Depends upon plan rules	No	Yes
Trustee required if shares are to be held	No (may be required by plan design)	Yes	Yes
Is income earned in the plan taxable?	Yes	No	No
Are withdrawals/sales taxable?	Yes (on capital gains)	No	Yes
Do withdrawals reinstate contribution room?	Not applicable	Yes	No

Each one of your employees is different and has their own retirement and savings goals. Adding TFSA and RRSP options to your ESPP can boost employee interest and participation in your plan, as well as employee share ownership.

TFSA and RRSP offerings enable employees participating in your ESPP to maximize their investment while minimizing taxation.

TFSAs are designed to save money for long- and/or short-term needs

The contribution amount of TFSAs is not based on income and contributions are not tax-deductible. An employee can withdraw assets at any time and not worry about paying tax on those withdrawals. Each year thereafter an employee can re-contribute to their TFSA.

RRSPs are designed to provide income after retirement

RRSP contribution room is dependent on the employee's income and participation in other tax-deferred plans such as **registered pension plans** and deferred profit sharing plans. There is a tax deduction for contributions to RRSPs and withdrawals are taxable. However, withdrawals from an RRSP do not reinstate the contribution room.

The RRSP option may also be attractive to those employees who typically invest in an RRSP. With regular payroll deductions, an ESPP with an RRSP option makes it easier for employees to reach their financial goals, rather than saving throughout the year for RRSP season.

The Value of TFSAs and RRSPs for Your ESPP

Whether it's a TFSA, RRSP or simply an ESPP, everybody wins

Most employees report enrolling in an ESPP because it is an attractive investment opportunity. Providing tax-effective account options such as TFSAs and RRSPs to your employees now, or at the outset of a newly implemented ESPP, means increased share plan uptake, employees who are immediately engaged in the successful performance of the company and a boost to the capital available to your company. To maximize your company's investment in an ESPP, consider adding tax-effective account options such as TFSAs and RRSPs.

Implementing an ESPP also delivers significant benefits to the company. In 2014, Computershare, in partnership with researchers at the London School of Economics and the University of Toronto, undertook survey research to understand how its own employees regarded share ownership. The comprehensive study measured and evaluated the perceptions and behaviours of Computershare's Canadian employees, whether or not they were participants in Computershare's ESPP.

Our results show that plan membership is associated with a happier and more loyal workforce and more motivated employees. As a valued benefit, ESPPs enable companies to attract and retain talent. Employees who enroll in an ESPP have a greater attachment to the company, measured in terms of stronger feelings of co-ownership, lower absence rates, a lower likelihood of seeking another job and a greater belief that the company is a good place to work.

You can read the entire Canadian report at **computershare.com/LSEreport**.

With over 40 years of global experience in trust and plan administration, Computershare is the largest employee share plan administrator in Canada. Computershare offers an array of plan alternatives and works as a virtual extension of your company, aligning our employee share plan solutions with your corporate processes and culture.

Computershare can help get you up and running, from design to implementation to ongoing administration. Contact Bob Zeiher, 973 985 8794 (Eastern Canada and U.S.) or Simon Thomas, 778 997 1195 (Western Canada and U.S.).

Learn more at **computershare.com/employeeshareplans**.

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About Computershare Limited (CPU)

Computershare (ASX: CPU) is a global market leader in transfer agency and share registration, employee equity plans, mortgage servicing, proxy solicitation and stakeholder communications. We also specialize in corporate trust, bankruptcy, class action and a range of other diversified financial and governance services.

Founded in 1978, Computershare is renowned for its expertise in high integrity data management, high volume transaction processing and reconciliations, payments and stakeholder engagement. Many of the world's leading organizations use us to streamline and maximize the value of relationships with their investors, employees, creditors and customers.

Computershare is represented in all major financial markets and has over 12,000 employees worldwide.

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