RRSP, TFSA AND ESPP – TAX SAVING OPTIONS FOR PARTICIPANTS

September 24, 2020

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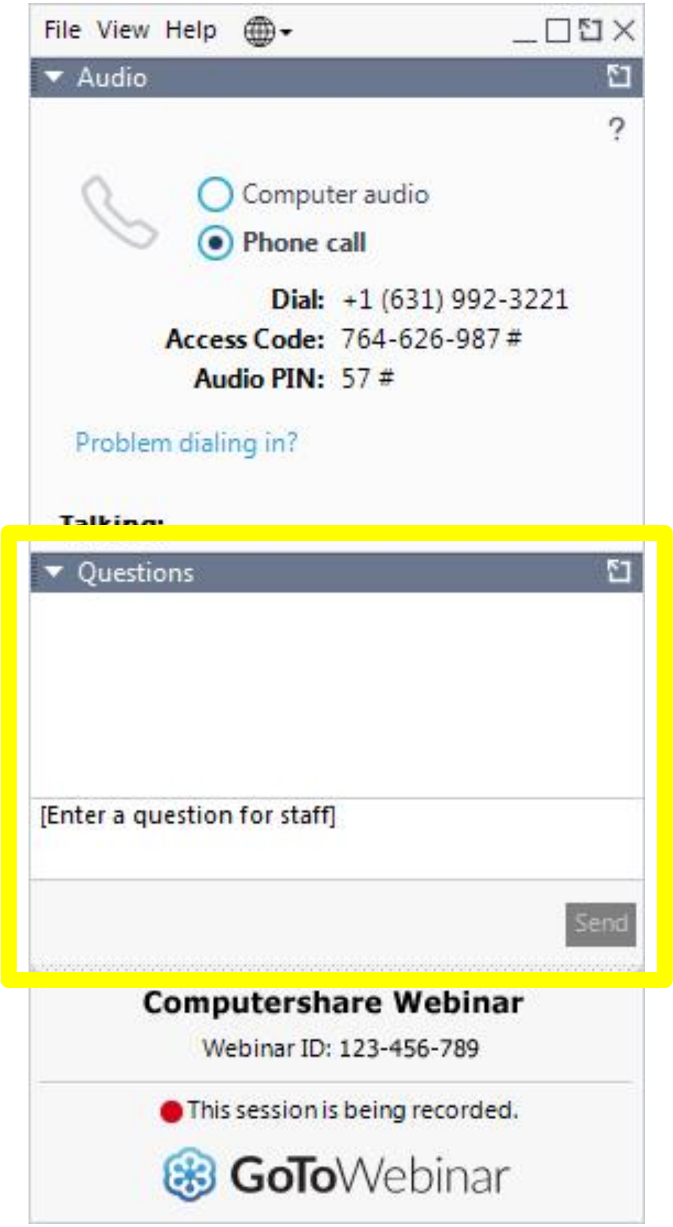

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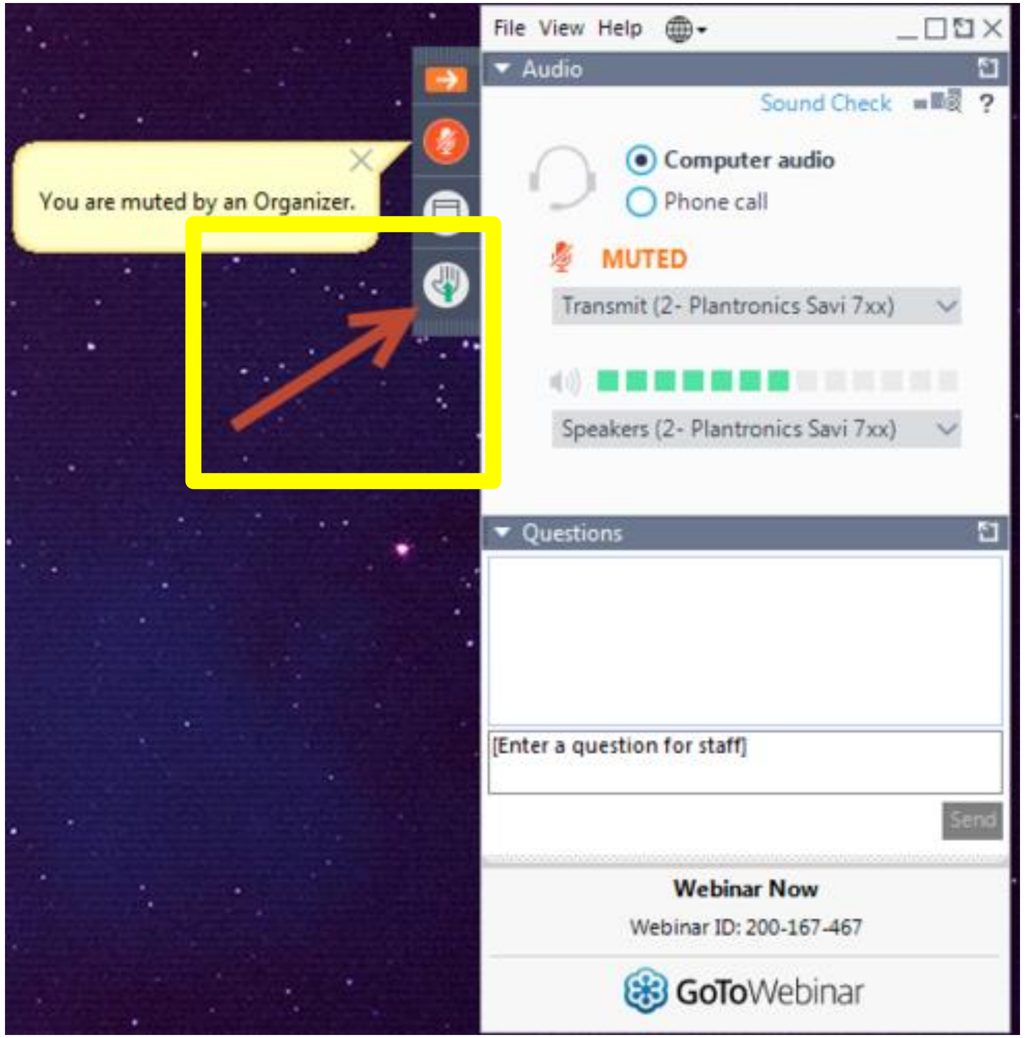

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Introductions

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Audience Question 1

Does your company currently offer any type of Employee Share Purchase Plan (ESPP) ESPP/EPSP/EBP/etc.?

- ❑ No
- ❑ No, but is currently looking into offering ESPP
- ❑ Yes
- ❑ Yes, but participation is low

Why have an ESPP?

If you want people to think and act like owners, make them owners.

Corey Rosen, Founder of the National Center for Employee Ownership

Employee ownership is good for business

Customers would rather support employee-owned businesses…

38%

said they're more likely to buy from them

Employee-owned companies can recruit better talent

When choosing between two similar jobs,

61% **said they'd take the job that offered them employee ownership**

72% **want to work for a company owned by employees**

19% owned by investors

9% owned by the state

Employee turnover can be **3 times lower** in employee owned companies

…and it's good for employees

They also have more training, more diversified retirement plans, more profit and gain sharing, and more involvement in the business.

Source: General Social Survey, 2018 and 2014. Analysis by Douglas Kruse and Joseph Blasi, Institute for the Study ofEmployee Ownership and Profit Sharing, Rutgers University School of Management and Labor Relations, May 2019. The Employee Ownership Foundation provided funding to the National Opinion Research Center at the University of Chicago for the General Social Survey employee ownership questions.

Employee Shares **align with strategy and success in any market**

Management

- **Attract, retain, and motivate** employees
- Focus employees on **key company objectives**
- **Drive shareholder value** with effective equity compensation programs

Employee

- **Broad ownership** allows employees to participate in the growth of the company
- Ownership **motivates and rewards** key employees
- Employees with ownership are more **satisfied and engaged** with their company

Shareholder

- Employee ownership will **align** employee motivation and performance with shareholders
- Balance broad ownership with **dilution**
- Compensation delivered **highly correlated** with shareholder returns

Employees Who Participate in Share Plans…

Are absent
less frequently

Work longer
hours

Are less
likely to quit

Are more likely
to recommend
working at the
company to others

Computershare Share Plan Survey (London School of Economics, 2014)

TALENT
RETENTION!

TALENT
ACQUISITION!

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Why Are These Plans so Attractive Now?

Renewed focus on mission, engagement and employee wellbeing

Company	Employee
Plans are shareholder friendly	Favorable tax treatment
Payroll contributions can be used immediately	Better opportunity for lowest paid people to participate in the plan
Purchase of stock creates capital	Upside in a down market
More expense efficient	Dollar cost averaging
Creates more employee engagement	Engaged Employees

Audience Question 2

Does your ESPP currently include RRSPs and/or TFSAs?

- ❑ No
- ❑ Yes – RRSP only
- ❑ Yes – TFSA only
- ❑ Yes – both RRSP & TFSA

Most common Canadian ESPP features

- Typically taxable accounts: non-registered or Employee Profit Sharing Plan (EPSP) accounts are offered
- Contributions to the plan are after-tax
- Employer match is taxed either at source or on vesting
- Employee contributions and employer match amounts are typically limited
- All dividends and other distributions are taxable and reinvested to purchase more shares
- Sale of shares results in taxable capital gains

What are RRSPs and TFSAs?

Registered Retirement Savings Plans (RRSP) Basics

Introduced in 1957 to help Canadians save for retirement

Canadians under the age of 71 can contribute to their RRSPs

RRSPs are tax deferred accounts

- For example: if you make $70k a year and you contribute the maximum allowable into your RRSP : $12,600
  the CRA will treat you as though you earned just $57,400.
- Any gains in the RRSP account accumulate tax deferred as well.

You will be taxed when you withdraw your money years down the line, when you are retired and your income will probably be smaller, thus your tax rate will be lower than it is now.

Contribution limits

- 18% of your past year's income or a maximum amount published by CRA each year, whichever is less.
- Limits are further reduced if you participate in your employer's pension plan.
- For 2020, the maximum deduction limit is $27,230.
- Unused contribution room accumulates and carries forward.

On retirement and no later than December of the year you turn 71, RRSPs convert to Registered Retirement Income Fund (RRIF).

Tax Free Savings Plan (TFSA) Basics

TFSAs were introduced in 2009 to help Canadians save more.

Canadians 18 and over can contribute to their TFSA.

The limit is not linked to income. The limit for 2020 is: $6,000. Unused contribution room accumulates and carries forward.

Unlike RRSPs, contributions to a TFSA are not tax deductible.

All gains (including dividends) in the TFSA are tax-free. So it is a great way to save for a big purchase.

The amount withdrawn can be recontributed in future years.

You can withdraw from your TFSA at any time, for any reason, without paying any tax.

Assets can be transferred to spouse or common-law partner upon death, tax-free.

Comparing ESPPs, TFSAs and RRSPs Features

Feature	ESPP	TFSA	RRSP
Tax deductible contributions	✘	✘	✓
Limited contribution amount	Depends upon plan rules	✓	✓
Contribution limit based on income	Depends upon plan rules	✘	✓
Trustee required if shares are to be held	✘ (may be required by plan design)	✓	✓
Is income earned tax free?	✘	✓	✓
Are withdrawals/sales tax free?	✘	✓	✘
Do withdrawals reinstate contribution room?	n/a	✓	✘
Are assets protected in bankruptcy?	✘	✘	✓
Foreign dividend withholding tax covered by tax treaties?	✘	✘	✓

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Comparing TFSAs and RRSPs

	TFSA	RRSP
Flexible on withdrawals?	Can be withdrawn anytime and used for anything. No impact on taxable income. Withdrawal amounts can re-contributed in future years.	Withdraw any amount at any time, subject to income tax. Withdrawals permitted under Home Buyers Plan or the Lifelong Learning Plan (subject to limits and repayment)
Tax Rules:	Tax-sheltered growth on investments	Tax-sheltered growth on investments
Tax Deduction?	No tax deduction for contributions	Contributions are tax deductible
Contribution Limits:	Annual maximum: Varies year to year. Max of $6,000 for 2020. Lifetime maximum: As of 2020, $69,500 total for those who were 18 in 2009.	Annual maximum:18% of previous year's earned income up to $27,230 (whichever is lower). Amount is reduced if participating in a pension plan or DPSP.
Expirations?	No expiry	RRSP must be converted to a Registered Retirement Income Fund (RRIF) by Dec 31 of the year you turn 71.

Why include an RRSP and/or TFSA Option to the ESPP

Tax efficient ways to invest in company shares

- **Non-registered accounts** (most common): Contributions are after tax.
  - All investment distributions, interest and any gains are taxable. Capital gains on sales are taxable.
- **RRSP accounts**: Contributions are tax deferred.
  - Investment distributions, interest and gains are tax deferred. Withdrawals are taxable as income.
- **TFSA accounts**: Contributions are after tax.
  - All investment distributions, interest and gains are tax-free. Withdrawals are not taxed.

More flexibility for the employees

- Employees can choose the account type for their contribution that best meets their tax planning needs.

Why include an RRSP and/or TFSA Option to the ESPP

Raise interest and participation in the ESPP

Average ESPP participation rate

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Audience Question 3

Does your ESPP currently have vesting/restrictions?

- ❑ No
- ❑ Yes

Plan Design Considerations

When adding an RRSP and/or TFSA options to the ESPP

- Vesting and restrictions
  - Shares from RRSP and TFSA cannot be forfeited
  - Shares in an RRSP and TFSA cannot be restricted
  - If plan has vesting or restrictions in place, then all contributions should be directed to the non-registered account. Once shares are vested and unrestricted, then the participant can transfer to their RRSP and/or TFSA depending on their tax choices and their available contribution room.
- Employer match
  - If employer match is paid to the account with the employee contribution, then there may be risk of overcontribution to RRSP/TFSA by the participants.
  - Employer match can be paid to the non-registered account. Then it is up to the participant to transfer to their RRSP and/or TFSA depending on their tax choices and their available contribution room.

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Plan Design Considerations (Contd.)

When adding an RRSP and/or TFSA options to the ESPP

- Options for terminating participants
  - If the plan pushes out the shares after a certain number of days following termination date (i.e. 60 or 90 days),
    - A pushout from non-registered account, may result in capital gains/losses if the pushout is through sale of shares
    - A pushout from RRSP can cause severe tax consequences for the participant since the withdrawal amount will be added to the taxable income.
    - A pushout from TFSA will be treated as a withdrawal and the participant cannot contribute that amount to their TFSA until the next year.
  - Accounts for leavers
    - Participant can be pushed to a leaver account so he can hold his shares without change of account type
    - Not included for billing to the corporation

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Launch Considerations

When adding an RRSP and/or TFSA options to the ESPP

- Setup Considerations
  - Updating your plan text
  - Finalizing your Declaration of Trust (DOT)
  - Make it easy for the employees – offer online completion of RRSP/TFSA application process
  - Updating of any electronic exchange of data
- Employee Communication
  - Campaign to raise awareness of the great benefit offered by the ESPP
  - Amplify the flexibility offered with the addition of the RRSP and TFSA
  - Disclose any fees that the employer will cover and those fees that the employees may incur with the RRSP and TFSA
  - Stress that the employee is responsible for monitoring their own contribution limits as established by the CRA
  - Encourage employees to seek tax advice to determine which options are best for them

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Plan Objectives and Priorities

FAIRNESS I ENGAGEMENT I PRODUCTIVITY I EMPLOYEE VOICE I RETENTION

Retain talent

Loyalty and motivation

Enhance employee benefits

Financial wellness and security

Attract and keep attracting talent

Match competitive market practice

Increase employee production and morale

Align employee interest with corporate performance

Raise employee awareness in stock price performance

Facilitate a means for employees to buy company stock

To underline a broader company change, e.g., IPO or turnaround

Encourage stock ownership and provide asset accumulation opportunity

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Thank you!

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