

What you need to know about the VRSP

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What is the VRSP?

In general, the Voluntary Retirement Savings Plans (“VRSP”) are plans that employers¹ must subscribe to when their employees do not benefit from any retirement pension plans provided by the employer or if they do not have the opportunity to make contributions, by way of payroll deductions, to a registered retirement savings plan or tax-free savings plan with the employer. The VRSP Act applies to all employers with 5 or more eligible employees on December 31st of a given year. However, until January 1, 2018, transitional rules apply regarding when the obligation for employers to implement the VRSP will come into effect.

Implementing the VRSP

The first deadline for implementing a VRSP is December 31, 2016, and applies to employers that have 20 or more “eligible” employees on June 30, 2016.

An “eligible employee is an employee that:

- ✓ is 18 years of age or over;
- ✓ is an employee within the meaning of the Act respecting labour standards;
- ✓ works in Québec or out of Québec for a Québec employer;
- ✓ is credited with one year of uninterrupted service within the meaning of the Act respecting labour standards.

You do not have to automatically enroll eligible employees that:

- ✓ belong to a category of employees who benefit from a registered pension plan (“RPP”) to which the employer is party; or
- ✓ have the opportunity to make contributions, by way of payroll deductions, to a designated registered retirement savings plan (“RRSP”) or a designated tax-free savings account (“TFSA”) within the enterprise of the employer.

You do not have to subscribe to a VRSP if you offer **all** your employees access to an RPP or the opportunity to contribute, through payroll deductions, to an RRSP or a TFSA.

Deadline for implementing the VRSP

If you must set-up a VRSP by **December 31, 2016**, you should start the process and choose the administrator within the next month since there are a few steps to be completed prior to the end of 2016, namely:

1. At least 30 days before subscribing to a VRSP with the chosen administrator, you must notify your employees (see next section “Employer obligations for implementing the VRSP”). We suggest a maximum delay of **November 1, 2016**, to proceed with the notification to your employees.
2. You should then be able to subscribe to the VRSP by **December 1, 2016**, being 30 days later, or before this date if the notice to your employees is sent before November 1st, and immediately enroll your employees. All eligible employees (as well as those having requested it) must be enrolled by **December 31, 2016**.

¹ The VRSP Act applies to employers in Québec whose activities are not under federal jurisdiction, such as postal services, banks, telecommunications and other activities governed by the federal government.

In the following sections, you will find a summary of your obligations as well as information to assist you in choosing an administrator for the VRSP. Several of the administrators already have sample letters that can be sent to your employees to notify them of your intention to subscribe to a VRSP.

We suggest you take note of the following information. Please know that we are available to answer your questions, if any.

Employer obligations for implementing the VRSP

As an employer subject to implementing a VRSP, you will essentially have to do the following:

- ❖ Choose an authorized administrator;
- ❖ At least 30 days before subscribing to a VRSP with an administrator, notify your employees, in writing:
 - ✓ of your intention to subscribe to a VRSP;
 - ✓ of your existing business relationship with the administrator;
 - ✓ of the fact that the eligible employees will automatically be enrolled in the plan and that they will have the opportunity to opt out of the plan;
 - ✓ of the fact that the employees that are not eligible employees and who wish to become members of the plan are required to inform you;
 - ✓ of the fact that you will provide the administrator of the plan with the personal information as determined by regulation for all eligible employees as well as for those having requested to become members of the plan;
 - ✓ of the fact that the employee may determine his or her own contribution to the plan;
 - ✓ of any contribution you agree to make to the plan or the method used to calculate your contribution, if applicable. Please note that you are not obliged to contribute to the VRSP plan.
- ❖ Subscribe to the VRSP plan with the administrator;
- ❖ Within 30 days of subscribing to the VRSP, you must automatically enroll all eligible employees as well as those having requested to become members of the plan;
- ❖ Provide the administrator with the required personal information of the employees as determined by regulation;
- ❖ Provide the administrator with any notice that an employee has opted out, if applicable;
- ❖ You must forward to the administrator the personal information concerning any new eligible employee within 30 days or for any new employee who has requested to become a member of the plan;
- ❖ Notify the administrator within 30 days of the termination of the employment of an employee who is a member of the plan;
- ❖ Collect and remit to the administrator of the plan all employee contributions as well as yours, if applicable, at the latest on the last day of the month that follows the day on which they were collected. The contributions must be collected starting from the first pay that follows the 61st day after the participation notice is sent to the employees by the administrator;
- ❖ If you contribute to the plan and you wish to reduce your contributions, you must notify, in writing, the administrator as well as the employees concerned. You will be able to reduce your contributions 30 days after the date of this notification;
- ❖ Retain all notices received by eligible employees who have opted out of the plan for the entire employment period of these employees and notify the administrator within 30 days of being advised by an employee that they are opting out of the plan;
- ❖ Every two years, in December following the date an employee has opted out of the plan or set his or her rate of contribution to 0%, you must once again offer the eligible employee the opportunity to become a member of the plan or resume contributions, as the case may be;
- ❖ Should you choose to change administrator, you will have to pay any fees related to the transfer of the plan to the new administrator.

Choosing the authorized administrator and plan

Once you have subscribed to the VRSP, the administration of the plan will be mainly handled by the administrator of this plan. As an employer, you must choose the administrator with whom you will be implementing the VRSP.

Each VRSP must offer a “lifecycle” option, which is the default option, as well as a maximum of five other investment options. The participant will choose among the available investment options offered depending on which VRSP administrator you will have chosen or take the default option.

You can consult the list of VRSPs registered with Retraite Québec by going to their website at the following address:

http://www.rrq.gouv.qc.ca/en/retraite/rver/rver_enregistres/Pages/RVER_enregistres.aspx

For each of these plans, the administrator is indicated on the webpage. The information on the site should allow you to compare the different plans, as well as the different fees. It is important to note that the management fees for the VRSPs are limited by regulation to 1.25% for the “lifecycle” option, that is, the default option, and to 1.50% for the other investment options. The management fees will generally be taken directly from the returns generated by the investment.

Additional administrative fees may be applicable to the employer, for example, when changing administrator or for a transfer to another plan. Other administrative fees may be charged to the employees, for example, for a withdrawal or for a transfer to another plan.

You should verify with the different administrators to confirm if other fees may apply.

The administrators each have a website where additional information can be found for the different plans and the majority of the administrators have put in place tools to facilitate the implementation of a VRSP as well as to assist the employer in meeting the requirements associated with the VRSP.

Furthermore, certain representatives authorized by the Autorité des marchés financiers, such as insurance representatives who deal with life insurance, trust corporations and investment fund managers may offer a VRSP. These representatives will act as a link between you and the authorized administrator of the plan.

Contributions

The default contribution rate is set at:

- ✓ 2% of gross salary until December 31, 2017;
- ✓ 3 % of gross salary, from January 1, 2018 to December 31, 2018;
- ✓ 4 % of gross salary, as of January 1, 2019.

The employee will have to set his or her contribution rate within 60 days from the date the administrator has sent the notice to the employee. Under certain conditions, an employee can set the rate at 0%. If no rate is set by the employee, the default rate will be applicable.

Like for the RRSP, the maximum contributions to the VRSP represent 18% of the annual earned income up to a maximum of \$25,370 for 2016. However, the maximum deductible contributions include both the contributions made to the RRSP and the VRSP. That is to say that the more the employee contributes to an RRSP, the less that can be contributed to the VRSP. The employer contributions will also reduce the amount available for employee contributions. The employee will therefore have to verify the contribution room available for the RRSP and VRSP prior to making contributions to ensure that there are no excess contributions made. A penalty of 1% is applicable to excess contributions. It should be noted that the maximum contribution room is also reduced by the pension adjustment factor which can be the case if the employee participates in a pension plan offered by the employer. The Canada Revenue Agency determines the maximum authorized contributions and deductible limits annually and indicates these on the notice of assessment. The employee is therefore able to refer to this notice to ensure that the amounts contributed are authorized.

As an employer, you do not have the obligation to contribute to the VRSP. However, you may wish to do so. You should be aware that the contributions you make to the VRSP for your employees are tax deductible for you, but are not considered a taxable benefit for your employees. Moreover, these contributions are not subject to the payroll taxes. It is also important to note that the employer contributions are locked in and cannot be withdrawn by the employees before retirement, except under certain situations provided for in the VRSP Act. These amounts will be taxable for the employee only when they are withdrawn.

The contributions made to the VRSP both by the employee and the employer are not included on the employee's T4 and Relevé 1 information slips. The VRSP issuer will forward to the employee the annual contribution receipts and these will have to be included with the employee's income tax returns. The employee's maximum allowable contributions for the following year, including the reduction for the employer contributions, will be indicated on the employee's federal notice of assessment.