Standard Life

Legislation matters

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A second step towards the implementation of Pooled Registered Pension Plans (PRPPs)

The main proposed PRPP tax rules are the following:

- A corporation residing in Canada that is licensed to administer a PRPP under applicable Canadian legislation or similar provincial legislation will eligible to administer a PRPP.
- A PRPP administrator will have to file annual information returns by May 1 (instead of June 30 for registered pension plans (RPPs)) of the following calendar year.
- It will no longer be required to have an employer-employee relationship in order to participate in a PRPP. This will permit employees whose employer has no involvement with a plan, as well as self-employed individuals, to participate in a PRPP.
- It will also no longer be required for an employer to make a minimum contribution to a PRPP, unlike current RPPs where participating employers are required to contribute a minimum of 1% of the total compensation for all active members per year.
- Contributions to a PRPP made by employers, employees and self-employed individuals will generally be deductible for tax purposes.
- All PRPP contributions, including any employer contributions, made by and on behalf of a PRPP member will be limited to the member's available RRSP contribution limit for the year. In other words, all PRPP contributions, including those paid by the employer, will immediately reduce the member's RRSP contribution room for the year and therefore, will immediately reduce the member's ability to make deductible RRSP contributions in that same year.
- Good news though — There will be no requirement for an employer to report pension adjustments (PAs), as is currently required under an RPP, since PRPP contributions will be made under a member's available RRSP limit.
- Employers will be permitted to make direct contributions to a PRPP on behalf of an employee. These will be excluded from salaried compensation (like employer contributions to an RPP) and as a result, employer contributions will not be subject to CPP/QPP or Employment Insurance withholdings, for example.
- There will be no "qualified investment" rules for PRPPs. Instead, some general rules will apply to ensure that investments are reasonably diversified and do not present risks of self-dealing.
- The existing transfer rules for defined contribution RPPs will generally apply to a PRPP, with some exceptions.
- In the event of termination of membership, employment, or death of the member, or division upon marriage breakdown or common-law partnership, the member or the spouse will have the following options:
  - Transfer the assets to another PRPP or another pension plan, if that plan permits.
  - Transfer to an RRSP or RRIF, including for example, a Locked-in Registered Account or a Life Income Fund for locked-in funds.
  - Purchase of an immediate or deferred life annuity that will meet certain conditions.
  - Leave the assets in the PRPP and receive RRIF-like payments.

These options (plus the option of transferring the funds to a Registered Disability Savings Plan (RDSP) to the extent RDSP contribution room is available) will also be permitted for a deceased member's financially dependent child or grandchild in the case of either a mental or physical infirmity.

- In addition to one of the options described above, a deceased PRPP member's spouse or common-law partner will be permitted to become a successor PRPP member, taking over ownership of the deceased member's PRPP account funds and making ongoing decisions in respect of those funds as a member of the plan.

It has also been announced that the Goods and Services Tax and Harmonized Sales Tax (GST/HST) rules under the *Excise Tax Act* will be amended to ensure that PRPPs are subject to the same GST/HST treatment as RPPs. It is proposed that amendments to the GST/HST rules under the *Excise Tax Act* be implemented concurrently with the income tax amendments. The result is something of a double edged sword: on one hand, the governments wish to increase pension coverage in Canada with the introduction of PRPP, but on the other hand, they wish to tax the savings!

It is proposed that these changes come into force at the same time as the *Pooled Registered Pension Plans Act* (Bill C-25). The Government intends to introduce legislation for these proposals as soon as they are able.

With this announcement, the Quebec Finance Minister, Mr. Raymond Bachand, will be able to fulfill the commitment made last March in his 2011 budget speech: to put the Voluntary Retirement Savings Plan (VRSP) into effect.

