



The Benefits of a Deferred Profit Sharing Plan versus a Group RRSP

Tax Minimizer

When employer contributions are directed to a group **RRSP** they must be reported as taxable benefit. From an employee perspective, the tax effect is neutral; as the employee will receive a tax receipt for their contributions in addition to the employer's contribution.

However, from the **employer perspective**, the taxable benefit amounts will also attract all standard payroll taxes. The following example shows the cost of this. Most or all of these additional payroll taxes can be avoided by redirecting employer contributions to a **DPSP** (*Deferred Profit Sharing Plan*).

Example:

Assume the company contributes 5% of employees' salaries into a **Group RRSP**. Assume there are 50 employees earning less than \$43,700 (YMPE). Assume the average income of this group of 50 employees is \$40,000.

Total payroll for these employees = 50 x \$40,000 = \$2,000,000
5% contribution to the Group RRSP = \$100,000

Assume the applicable payroll taxes (dependant on company's assessed rates) are:

Health Tax @ 1.95%
WSIB @ 4.50%
CPP @ 4.95%
EI @ 2.77%

Total + 14.17%

THE RESULTS:

\$100,000 Group RRSP contributions attract 14.17% in additional payroll taxes = \$ 14,170

Compare this to: payroll taxes attracted if contributions are deposited to DPSP = \$ 0

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