

Buying Back Service

Contribution Deductions

Tax Deductions of Contributions for Past Service WHILE NOT A CONTRIBUTOR – Pre-1990 service

If you were not a contributor to any pension plan during the calendar years containing the service you are buying back, this service is considered past service WHILE NOT A CONTRIBUTOR. The Canada Revenue Agency allows you to deduct your contributions for this type of service, within limits. The maximum allowable deduction, in any calendar year, is \$3,500. In the event that the above limit prevents the full deduction of past service contributions made in the year, the excess can be carried forward for deduction in future tax years (within the \$3,500 allowable deduction limit per year). However, the total deduction for past service WHILE NOT A CONTRIBUTOR is limited to \$3,500 for each calendar year recognized as past service WHILE NOT A CONTRIBUTOR. Note that this deduction limit is not prorated for partial year recognition. Tax deductions for past service contributions are in addition to the deductions for your regular plan contributions.

Tax Deductions of Contributions for Past Service WHILE A CONTRIBUTOR – Pre-1990 Service

If you contributed to any pension plan during the calendar years containing the service you are buying back, this service is considered past service WHILE A CONTRIBUTOR. You can deduct your contributions for this type of service within limits. The maximum allowable deduction in any calendar year is \$3,500 minus the sum of i) your regular pension plan contributions for that year and ii) past service contributions made during that year for past service WHILE NOT A CONTRIBUTOR. In the event that the above limit prevents deduction of all your past service contributions for this type of service, the excess can be carried forward for deduction in future tax years. Tax deductions for past service contributions are in addition to the deductions for your regular plan contributions.

For your information, the applicable sections in the Income Tax Act regarding allowable contribution deductions for any pre-1990 service are sections 147.2(4)(b) and 147.2(4)(c). You can also refer to Chapter 1 of the T4040 Guide, RRSP and Other Registered Plans for Retirement and to the Interpretation Bulletin IT-167R6: Registered Pension Funds or Plans – Employee's Contributions. Both documents are published by the Canada Revenue Agency.

Tax Deductions of Contributions for Past Service – Post-1989 Service

The buying back of post-1989 service will have an impact on the amount you can contribute to an RRSP. This is known as a Past Service Pension Adjustment (a "PSPA"). The amount of the PSPA is not related to the actual cost of purchasing your post-1989 service.

This PSPA will be reduced by the amount of any transfers you make from your own personal RRSP's to the University of Ottawa Retirement Pension Plan (the "University pension plan") to fund your buy back. However you will not get any further deductions. Should you wish to buy back post-1989 service, we will have to apply for approval from the Canada Revenue Agency before the purchased service can actually be credited. In addition, you are entitled to deduct for income tax purposes, all non-RRSP contributions you make towards the purchase of post-1989 service.

For your information, you can refer to Guide T4104, Past Service Pension Adjustment Guide published by the Canada Revenue Agency and to the Interpretation Bulletin IT-167R6: Registered Pension Funds or Plans – Employee's Contributions.

For illustration purposes, a numerical example is provided on the next page.

Numerical Example

You started working for the University of Ottawa in December 1986 and in March 1989 you joined the University pension plan. Before March 1989 you had never been a member of a pension plan.

In 2018, you decide you want to purchase that prior service. The cost is \$12,000 for the period from December 1986 to December 1988 and \$2,000 for the period from January 1989 to March 1989. You will make the following payments to cover that cost:

- \$750 in 2018,
- \$4,500 in 2019,
- \$4,500 in 2020 and
- \$4,250 in 2021.

The calendar years 1986, 1987 and 1988 are considered past service WHILE NOT A CONTRIBUTOR. You can deduct \$3,500 per year, starting in 2018 up to a total limit of \$10,500. The maximum pension you can get is \$1,962.96 for each year of service or \$4,089.44 in total for December 1986 to December 1988 inclusively, regardless of whether your average salary would generate a larger benefit, because this service is considered NEW SERVICE.

The period from January 1989 to March 1989 is considered past service WHILE A CONTRIBUTOR. There is no total deduction limit for that type of service. Starting in 2018, you can deduct \$3,500 minus the regular contributions you made to the University and minus the contributions you made for past service WHILE NOT A CONTRIBUTOR.

Assuming that your regular annual required contributions to the University pension plan during 2018 to 2023 were \$2,000, you could deduct the following amounts:

In 2018	\$2,000 for your regular contributions plus \$750 for your past service contributions WHILE NOT A CONTRIBUTOR.
In 2019	\$2,000 for your regular contributions plus \$3,500 for your past service contributions WHILE NOT A CONTRIBUTOR
In 2020	\$2,000 for your regular contributions plus \$3,500 for your past service contributions WHILE NOT A CONTRIBUTOR
In 2021	\$2,000 for your regular contributions plus \$2,750 for your past service contributions WHILE NOT A CONTRIBUTOR. You will not be able to deduct the remaining \$1,500 for your past service WHILE NOT A CONTRIBUTOR. Since the total of your regular contributions and your past service contributions is greater than \$3,500 you cannot deduct this year your contributions for past service WHILE A CONTRIBUTOR.
In 2022	\$2,000 for your regular contributions plus \$1,500 for your past service contributions WHILE A CONTRIBUTOR.
In 2023	\$2,000 for your regular contributions plus \$500 for your past service contributions WHILE A CONTRIBUTOR.

CONTRIBUTOR

Means that you made contributions to a pension plan at some point during the calendar year that you are buying back.