BUSINESS AND FINANCE

Delaying RRSP contributions can cost money now and in the future

It is very important to know exactly how much you can contribute to your RRSP in any given year. Keep in mind that RRSP limits are based on previous years' earned income – for example, salary or business income. You also need to know the amount of your Pension Adjustment from work, which is indicated on your T4 or T4A. Your limit is 18 per cent of your previous years earned income to a maximum of $13,500 less the PA, plus any carry forward you have accumulated.

You can also call Revenue Canada TIPS. You'll need your Social Insurance Number, date of birth and the income you reported on line 150 of your 1996 tax return. Another alternative is to simply refer to last years' Notice of Assessment from Revenue Canada where your current limit and accumulated carry forward is tracked for you.

There are pluses and minuses to carrying forward unused RRSP contribution room:

If you don't claim your maximum RRSP deduction in any given year, you can carry it forward.

• This ensures that if you don't have the money one year, you can make it up later.

• If you have fluctuating annual income, you can delay RRSP contributions in years when your income is lower, and make them up when your income is higher.

• Higher income means higher tax brackets. Claiming RRSP deductions in those years will bring your overall taxable income down - meaning you pay less tax.

On the minus side:

Delaying RRSP contributions year after year can be costly.

• Many people who forego their contribution in any given year, rarely make it up. If you can't contribute $2,000 this year, will you be able to make up $10,000 five years from now?

• One of the greatest benefits of contributing to an RRSP is tax-sheltered compounding. By delaying contributions you not only miss out on the tax sheltered earnings for the year, but you also shorten the time your money has to grow.

• Large RRSP contributions in later years may make you subject to Alternative Minimum Tax, an alternative tax calculation designed to reduce occasions where high income earners pay little or no tax. Normal RRSP contributions are usually well below the AMT exemption of $40,000.

This article has been prepared for Brian J. Evans Financial Services.