



## PURCHASING SERVICE – INCOME TAX IMPLICATIONS

The following information is based on ATRF's understanding of the current provisions of the *Income Tax Act*. We recommend you contact **Canada Revenue Agency** (CRA) for clarification or any additional information. If CRA rules in a different way, the Canada Revenue Agency decision prevails.

### METHOD OF PAYMENT

If you decide to purchase service, payment may be made by:

- Personal funds (cheque)
  - A tax receipt will be issued.
- Transferring *registered funds* from a Registered Retirement Savings Plan (RRSP), a Deferred Profit Sharing Plan (DPSP), or a Registered Pension Plan (RPP)
  - To transfer *registered funds*, a Canada Revenue Agency form T2033 or T2151 must be completed by you, ATRF, and the financial institution holding your registered funds. The forms are available from CRA, ATRF, or the financial institution holding your registered funds.
  - The registered funds are not reported as income on your Income Tax Return.
  - There is no tax deduction for registered funds transferred to ATRF.
  - No T4A or tax receipt will be issued.

### PURCHASE OF PRE-1990 SERVICE

You do not need RRSP room to be able to purchase service before 1990. Purchasing service before 1990 will not reduce any unused RRSP contribution room, and CRA does not have to certify the purchase.

- The maximum you can claim in any one calendar year is \$3,500 minus the contributions you will make to an RPP during the **current** calendar year.
- Unclaimed amounts may be carried forward to subsequent calendar years and are subject to the same limits.
- The maximum you can claim for any purchase is \$3,500 multiplied by the number of years or partial years you are purchasing.

### PURCHASE OF POST-1989 SERVICE

You need enough RRSP contribution room to be able to purchase post-1989 service. Your maximum RRSP contribution limit for the current year is provided on the CRA Notice of Assessment from the previous calendar year.

Purchasing post-1989 service will reduce your RRSP contribution room. The reduction in RRSP contribution room is determined by Pension Adjustments (PA) and Past Service Pension Adjustments (PSPA).

If you make payment with personal funds, CRA must certify the purchase before the service can be credited.

If CRA certifies the purchase:

- ATRF will provide a tax receipt,
- the full amount of the purchase can be used as a tax deduction, and
- the total amount of the payment must be claimed as a deduction in the calendar year in which the payment is made.

If CRA does not certify the purchase:

- you will have to withdraw funds from your RRSP (to create enough RRSP contribution room), or
- you can make the payment by transferring funds from an RRSP (instead of making payment with personal funds).

CRA will certify the PSPA if it is not greater than the sum of \$8,000 plus your current RRSP contribution room.

### PENSION ADJUSTMENTS

Pension Adjustments represent the value, for tax purposes, of the pension benefit earned while contributing to an RPP or when purchasing current service, and affect what you can contribute to your RRSP during the next calendar year.

- If the service you purchase extends over more than one calendar year, a PA is issued for each calendar year. This may result in a reassessment of previous tax returns if you made RRSP contributions in those years.
- ATRF issues a PA (when service is purchased for the current year) if the payment is received by April 30 of the following year. It will reduce your RRSP room for the following calendar year. PA's can only reduce your RRSP room to zero. This only applies to the purchase of leaves of absence.

### PAST SERVICE PENSION ADJUSTMENTS

A Past Service Pension Adjustment represents the value for tax purposes of additional periods of post-1989 service credited on a past-service basis.

- Your RRSP contribution room for the current calendar year will be reduced by the PSPA.
- Any transfer from an RRSP to purchase part of or all of the post-1989 service which gives rise to a PSPA is referred to as a "qualifying transfer" and reduces the amount of the PSPA by the relevant amount of the qualifying transfer.
- ATRF reports to CRA the PSPA associated with the service you wish to purchase. All PSPA's must be certified by CRA before the pension benefits associated with the additional pensionable service can be provided.
- If CRA does not certify your PSPA, you will be given the opportunity to de-register or transfer sufficient RRSP funds to permit approval. If you decide not to take that action, ATRF will return your payment and the service will not be credited to your account.

**Specific taxation questions should be directed to:**

**Canada Revenue Agency Tax Services Office**  
Individual Income Tax Enquiries: 1-800-959-8281