

Tax Tip

Week of August 22, 2011

Managing RRSP Carry Forwards and Over Contributions

If individuals do not make their maximum annual contribution to an RRSP, the unused amount can be a carryforward to future years. Younger taxpayers who have carryforward room may wish to utilize their additional RRSP contributions in future years when their marginal tax rates has increased, resulting in a larger tax refund.

There are strict limits on the annual contribution to an RRSP. However, individuals are allowed a lifetime overcontribution of \$2,000. Although the amount is not deductible, the income does compound tax free within the RRSP. Tax planning tactics related to overcontributions include:

- make the overcontribution at the youngest age possible to maximize the compounding period. Parents may wish to make an overcontribution on behalf of their adult children to give them a head start in either retirement planning or purchasing a home
- the overcontribution can be claimed as a tax deduction in future years. This may be beneficial in periods when the taxpayer is unable to make the maximum RRSP contribution