



January 20, 2011

FINANCIAL ADVISORY SUPPORT

## RRSP Deduction Limit Statement

### Understanding and Interpreting your Notice of Assessment

*The following article outlines how to interpret your “RRSP Deduction Limit Statement” to determine the amount you can contribute to your RRSP, how much you can deduct on your income tax return and whether you are in an over-contribution position. This article is for information only and should not be construed as offering tax or legal advice.*

### The RRSP Deduction Limit Statement

Your RRSP Deduction Limit Statement is part of your Notice of Assessment which you receive every year from the Canada Revenue Agency (“CRA”) after filing your income tax return for the previous year. To determine how much you are entitled to contribute to your RRSP for the 2010 tax year, how much you can deduct on your 2010 income tax return and whether you are in an over-contribution position in 2010, you need to refer to your “2010 RRSP Deduction Limit Statement” which is attached to your “2009 Notice of Assessment”. Key areas have been highlighted in this example:

#### 2010 RRSP Deduction Limit Statement

The back of this notice contains important information. Amounts marked with an asterisk (\*) cannot be less than zero.

RRSP deduction limit for 2009.....	\$20,007
<b>Minus:</b> Allowable RRSP contributions deducted in 2009.....	<u>\$11,007</u>
Unused RRSP deduction limit at the end of 2009.....	\$ 9,000
<b>Plus:</b> 18% of 2009 earned income of \$148,000 = (max. \$22,000) \$22,000	
Minus: 2009 pension adjustment.....	\$13,200
	<u>\$ 8,800</u>
	\$17,800
<b>Minus:</b> 2010 net past service pension adjustment.....	\$0
<b>Plus:</b> 2010 pension adjustment reversal.....	\$ 2,300
Your RRSP deduction limit for 2010.....	\$20,100 <b>(A)</b>

**You have \$ 3,500 (B) of unused RRSP contributions available for 2010. If this amount is more than amount (A) above, you may have to pay a tax on the excess contributions.**

## How much can I contribute to my RRSP?

The maximum amount which you can contribute to your RRSP is equal to (A) – (B) + \$2,000 where:

- **(A)** is your RRSP deduction limit for 2010 (see sample statement on the first page);
- **(B)** is your unused RRSP contributions. “Unused contributions” are RRSP contributions you have made in a previous year, but have not yet deducted on your income tax return (see sample statement).
- **\$2,000** is the allowable amount of over-contribution you can make without being subject to an over-contribution penalty.

Using the sample statement as an example, this individual could contribute \$18,600 to their own RRSP or to a spousal plan during 2010 or by the 2010 RRSP deadline of March 1, 2011. This is calculated as follows:

(A) – (B) + \$2,000 or

$$\$20,100 - \$3,500 + \$2,000 = \$18,600$$

Keep in mind that the additional \$2,000 over-contribution amount would not be tax-deductible. The \$2,000 can be deducted in a future year as long as it is within that year’s RRSP deduction limit.

If the individual does not want to make use of the \$2,000 of allowable over-contribution amount, he could simply contribute \$16,600 (which is (A) – (B)).

## What are unused RRSP contributions or “(B)” in the statement?

Unused contributions may also be referred to as “undeducted contributions”. It is called this because if (B) is greater than zero, then this means that you made RRSP contributions in a previous year (or years) and **did not** deduct them on your income tax return. You may have chosen not to deduct them because your taxable income was low in the particular year or you expected your income to rise significantly in a future year. However if “(B)” is zero then it means you have already deducted all the contributions you have made in past years. It is also possible that you did not deduct the contributions because you did not have sufficient RRSP deduction room. This would imply you had over-contributed to your RRSP. (See below under “Have I over-contributed to my RRSP”.)

In our example above, (B) is equal to \$3,500. This implies that the individual made \$3,500 in RRSP contributions in a previous year (or years) that were not deducted for income tax purposes.

## What if I cannot find my Notice of Assessment?

If you are unable to locate your NOA, you can still find out your RRSP contribution room by contacting the CRA directly (1-800-959-8281), or visit the “My Account” page of the CRA web site: <http://www.cra-arc.gc.ca/esrvce-srvce/tx/ndvdl/mycent/menu-eng.html>. To access your information, you are required to register for a Government of Canada epass. This entails entering your Social Insurance Number, your date of birth, and the dollar amount entered on line 150 of your previous year’s tax return. It will take approximately 5 business days from the date of enrollment to receive your CRA Security code by mail.

Once you receive your CRA Security code you will have access to all the services offered on My Account including your RRSP deduction limit and your unused RRSP contribution amounts for the current year.

## How much can I deduct on my tax return?

**“(A)” is your “RRSP deduction limit for 2010”. It is also the maximum amount of contributions you can deduct on your 2010 income tax return.**

The amount you can deduct on your income tax return “(A)” may be greater than the amount you can contribute, if you have unused contributions; i.e., “(B)”. This is because you can deduct both prior years’ contributions “(B)” and your current year’s contributions on your 2010 income tax return. Refer to the sample statement on the first page of this article. Without making any further contributions during 2010 (or by the 2010 RRSP deadline of March 1, 2011) this individual can deduct \$3,500 of unused RRSP contributions (“undeducted contributions”) on the 2010 income tax return. Assuming this individual wants to maximize his or her RRSPs and makes the additional \$16,600 RRSP contribution he or she is entitled to make, he or she will be able to deduct a total of \$20,100 on the 2010 return or (A) in the statement). However, if this individual decides to also make the additional \$2,000 over-contribution amount, this amount will not be income tax deductible for 2010.

## Have I over-contributed to my RRSP?

**If (B) - (A) > \$0, then you have over-contributed to your RRSP. If (B) – (A) is > 0 but <\$2,000, then you are within the allowable over-contribution limit.**

You are allowed to over-contribute \$2,000 to your RRSP without penalty. Don’t forget that all contributions that you have made after March 1, 2010 up to the RRSP contribution deadline may not be reflected in your statement for 2010\* and may create an over-contribution amount in excess of \$2,000 for 2010. Any over-contribution in excess of \$2,000 is subject to a penalty.

If (B) – (A) is > \$2,000 then you have over-contributed to your RRSP for 2010 and over-contributions in excess of \$2,000 are subject to a 1% per month over-contribution penalty calculated from the month you first exceeded your contribution limit until you have new contribution room available to absorb the \$2,000 overcontribution, which usually occurs on January 1<sup>st</sup> of the following year, or until you have removed the excess. Again, all contributions you have made since March 1, 2010 may not be reflected in your RRSP statement for 2010\* and may also be subject to the 1% per month over-contribution penalty.

\* Note that any RRSP contributions you made during the first 60 days of 2010 should have been reported on schedule 7 of your 2009 income tax return even if you did not deduct them. If you properly reported these contributions on your schedule 7, then the CRA would report these in “(B)”. Any amount contributed after March 1, 2010 would certainly not be reflected in your 2010 RRSP deduction limit statement. If you are in an over-contribution position in excess of \$2,000 in any year, promptly notify your legal or tax advisor to discuss your options.



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