

Understanding the RSP Deduction Limit Statement

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The maximum amount that an individual can contribute to their RSP for the current year, to avoid RSP over-contribution penalties, can be determined by looking at their RSP Deduction Limit Statement for the current year. This statement is contained in the Notice of Assessment that the individual receives from the Canada Customs and Revenue Agency (CCRA) after filing their tax return for the previous year. The following is an example of such a statement.

2003 RRSP DEDUCTION LIMIT STATEMENT

RRSP Deduction Limit for 2002	\$13,500	\$13,500	\$13,500	\$13,500
<u>Minus:</u> Allowable RRSP contribution deducted in 2002	\$13,500	\$13,500	\$ 9,500	\$12,500
(2) Unused RRSP deduction limit at the end of 2002	\$ 0	\$ 0	\$ 4,000	\$ 1,000
<u>Plus:</u> 18% of 2002 earned income \$100,000 (max. \$14,500)	\$14,500	\$14,500	\$14,500	\$14,500
<u>Minus:</u> 2002 pension adjustment	\$ 0	\$ 0	\$ 0	\$ 0
<u>Minus:</u> 2003 net past service pension adjustment	\$ 0	\$ 0	\$ 0	\$ 0
<u>Plus:</u> 2003 pension adjustment reversal	\$ 0	\$ 0	\$ 0	\$ 0
(1) Your RRSP deduction limit for 2003	\$14,500	\$14,500	\$18,500	\$15,500
(3) Your unused RRSP contributions available for 2003	\$ 0	\$ 2,000	\$ 4,000	\$ 4,000
Example (see page 2)	A	B	C	D

At first glance, an advisor may think that the amount that appears next to "Your RRSP deduction limit for 2003" is the RSP amount that an individual can contribute for 2003. This is not necessarily the case. The advisor should review the amounts on the following three lines before discussing an appropriate amount to add to the RSP for 2003:

(1) "Your RRSP deduction limit for 2003" – This is the starting point. This amount determines the maximum an individual may **deduct** on their 2003 income tax return. Remember an individual can make an RSP contribution, but not claim the deduction in the same year for certain reasons. Also, an individual may have over-contributed to their RSP in a previous year, in which case they may want to first apply the amount of the over-contribution against their 2003 RSP deduction limit before making additional contributions. Otherwise, a 1% per month penalty may apply to any RSP over-contribution amount over \$2,000;

(2) "Unused RRSP deduction limit at the end of 2002" – If this amount is zero, then the individual has deducted all their RSP contributions up to the end of the previous year. If this amount is not zero, then they have either not maximized their prior years' RSP contributions, or have made RSP contributions that they decided not to deduct; and

(3) "Your unused RRSP contributions available for 2003" – This amount must be compared to the amount found in "(2) Unused RRSP deduction limit at the end of 2002". If this amount exceeds the Unused RSP deduction limit amount, then the individual has RSP contributions that they did not deduct and also, they over-contributed to their RSP. The amount of RSP deductions that the individual chose not to claim will equal their Unused RSP deduction limit. Their over-contribution amount will be the excess of unused RSP contributions available minus the Unused RSP deduction limit. If on the other hand, the amount shown on the unused RRSP contribution available is less than or equal to the amount shown on the Unused RRSP deduction limit, then the individual had made RSP contributions that they did not deduct and/or they had not maximized their RSP contributions (see Example C below).

Consider the four examples provided in the sample 2003 RSP Deduction Limit Statement above.

Example A – This situation is probably the most common. The individual has deducted all their previous years' RSP contributions (Unused RSP deduction limit for 2002 is zero), and has not over-contributed (Unused RSP contribution available for 2003 is zero). In this case, the individual can contribute a total of \$14,500 to an RSP for 2003 and can deduct the entire amount of the contribution.

Example B – Here, the individual has deducted all their previous RSP contributions (Unused RSP deduction limit for 2002 equals zero), but has over-contributed their RSP by \$2,000 as shown on the Unused RSP contribution available for 2003. The individual in this case can deduct their \$14,500 of Allowable RRSP deductions for 2003 by contributing \$14,500 to their RSP and carry forward the \$2,000 excess contribution (since no penalty is levied against the first \$2,000 of over-contribution). Alternatively, they can use the amount of the over-contribution and contribute new monies of only \$12,500 to claim the \$14,500 deduction.

Example C – Here the individual has an Unused RRSP deduction limit at then end of 2002 of \$4,000 and an Unused RSP contribution available amount of \$4,000. This means that the individual has made \$4,000 of RSP contribution that he/she chose not to deduct. Note that the 1% over-contribution penalty does not apply in this case since this amount is not considered to be an over-contribution. In this case, the individual can deduct their \$18,500 Allowable RSP deductions for 2003 by using the \$4,000 prior year contribution and contribute only an additional \$14,500 to claim the \$18,500 RSP deduction limit. If the individual wishes to contribute up to the maximum over-contribution limit of \$2,000, they may add \$16,500 to their RSP (although they will not be able to claim a deduction on the \$2,000 over-contribution amount in 2003). If the Unused RSP contribution available in this example was \$3,000 instead of \$4,000, then the \$3,000 would represent the amount of contributions made, but not deducted. The remaining \$1,000 difference between the Unused RRSP contribution available (\$3,000) and Unused RRSP deduction limit (\$4,000) would represent the additional RSP room that the individual could have made in year 2002.

Example D – Here the individual has an Unused RSP deduction limit of \$1,000 and an Unused RSP contribution available amount of \$4,000. This means that the individual has made \$1,000 of RSP contribution that he/she chose not to deduct. The remaining \$3,000 represents the individual's over-contribution amount. A 1% per month over-contribution penalty would be levied on the \$1,000 (the amount in excess of the \$2,000 RSP over-contribution cushion). In this case, the individual can make as little as \$11,500 in new RSP contributions to claim the maximum \$15,500 2003 allowable RSP deductions. The individual may contribute up to \$13,500 to utilize the \$2,000 allowable over-contribution limit.

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