

THE NAVIGATOR

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RRSP DEDUCTION LIMIT STATEMENT

Understanding and Interpreting your Notice of Assessment

Shortly after you file your 2015 tax return, you should receive a Notice of Assessment from the Canada Revenue Agency (CRA). This article contains information about your Registered Retirement Savings Plan (RRSP). Here's an overview of how to interpret your RRSP Deduction Limit Statement ("statement") to determine the amount you can contribute, how much you can deduct on your income tax return and whether you are in an over-contribution position.

Note that your RRSP deduction limit also determines the maximum amount that you and/or your employer may contribute to a Pooled Registered Pension Plan (PRPP) for the year. All PRPP contributions by you and/or your employer will reduce your RRSP contribution room for the year.

The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.



RBC Wealth Management



The amount of RRSP contributions that you can deduct for 2016 is based on your 2016 RRSP deduction limit.

The RRSP Deduction Limit Statement

The following is a sample of an RRSP deduction limit statement:

Your 2016 RRSP/PRPP Deduction Limit Statement

Amounts marked with an asterisk (*) cannot be less than zero.

RRSP/PRPP deduction limit for 2015	\$20,007
Minus: Employer's PRPP contributions for 2015	\$ 0
Minus: Allowable RRSP/PRPP contributions deducted for 2015	<u>\$11,007</u>
Unused RRSP/PRPP deduction limit at the end of 2015	\$ 9,000
Plus: 18% of 2015 earned income of \$148,000 = (max. \$25,370) ..	\$25,370
Minus: 2015 pension adjustment	\$13,640
	<u>\$11,730*</u>
	\$20,730
Minus: 2016 net past service pension adjustment	\$ 0
Plus: 2016 pension adjustment reversal	<u>\$ 2,300</u>
Your RRSP deduction limit for 2016	<u>\$23,030* (A)</u>

You have **\$3,500 (B)** of unused RRSP/PRPP contributions available for 2016. 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 2016;
- (B) is your unused RRSP contributions; and
- **\$2,000** is the cumulative lifetime allowable amount of over-contribution you can make without being subject to a penalty tax.

Using the information from the sample statement, this individual may contribute \$21,530 (\$23,030 - \$3,500 + \$2,000) to their own RRSP or to a spousal plan during 2016 or by the 2016 RRSP deadline of March 1, 2017.

Consider contributing to your RRSP early in the year to boost your RRSP's growth. By contributing early, your RRSP assets will have more time to benefit from tax-deferred compound growth.

HOW MUCH CAN I DEDUCT ON MY TAX RETURN?

The amount of RRSP contributions that you can deduct for 2016 is based on your 2016 RRSP deduction limit, which is the amount next to the letter (A) in the statement. The CRA determines your 2016 limit from information on your 2015 tax return plus any unused RRSP room carried forward from the years between 1991 and 2014.

Your RRSP deduction limit is calculated in part by determining your earned income. Earned income includes net income from employment, business and rentals, as well as other income such as alimony received but it does not include investment income.

Your RRSP deduction limit will be **reduced** by any Pension Adjustments (PAs) calculated by your employer. For example:

- If you or your employer contribute to a Registered Pension Plan or your employer contributes to a Deferred Profit Sharing Plan, your employer

Any RRSP contributions you made during the first 60 days of 2016 should have been reported on Schedule 7 of your 2015 income tax return.

will report a current year PA on your T4 slip for the benefits accruing to you under the plan(s). A PA will reduce your RRSP contribution room for the following year.

- If you purchased past years of pension service, your employer will report a Past Service Pension Adjustment (PSPA) to you on Form T215 – *Past Service Pension Adjustment (PSPA) Exempt from Certification*. A PSPA reported on Form T215 will reduce your RRSP contribution room for the following year.

On the other hand, your RRSP deduction limit will be **increased** by any Pension Adjustment Reversals (PARs) calculated by your employer. For example:

- If you received the commuted value from a Defined Benefit Pension Plan, you may get some of your RRSP contribution room back with a PAR. A PAR is reported on Form T10 – *Pension Adjustment Reversal* and increases your RRSP contribution room, returning some of the room you lost from previous PAs.

HAVE I OVER-CONTRIBUTED TO MY RRSP?

In order to determine if you have over-contributed to your RRSP, you will need to refer to the amount next to the letter (B) on your statement. This amount represents your unused contributions, which are also known as

undeducted contributions. This means that you made RRSP contributions in previous years, or in the first 60 days of the current year, and **did not** deduct them on a prior year income tax return. Based on the information from the sample statement, the individual made \$3,500 of RRSP contributions in previous years that they did not deduct for income tax purposes.

You may have chosen not to deduct these contributions because your taxable income was low in the previous year or you expected your income to rise significantly in a future year. It is also possible that you did not deduct these contributions because you did not have sufficient RRSP deduction room.

Note that any RRSP contributions you made during the first 60 days of 2016 (i.e., before February 29, 2016) should have been reported on Schedule 7 of your 2015 income tax return even if you did not deduct them. If you did not deduct them, then the CRA will report these as unused RRSP contributions in the (B) amount on your 2016 RRSP Deduction Limit Statement. Any amounts contributed to your RRSP after February 29, 2016 will not be reflected in your statement.

The relationship of amount (B) to amount (A) will determine if you are over-contributed. This relationship can be classified in one of the following three ways:

1. **If (B) - (A) is less than or equal to \$0, then you have not over-contributed to your RRSP.** This means you still have additional room to make contributions to your RRSP. This additional room is equal to $(A) - (B) + \$2,000$.
2. **If (B) - (A) is greater than \$0 but less than \$2,000, then you are within the allowable over-contribution limit.** You are allowed to over-contribute a cumulative lifetime total of \$2,000 to your RRSP without incurring a penalty tax. This limit is designed to provide a buffer in case of accidental over-contributions. You can use the \$2,000 over-contribution to take advantage of tax-deferred growth and compounding in the RRSP but keep in mind that the additional over-contribution amount will not be deductible.

As you get closer to retirement, make sure that you eventually claim the \$2,000 as part of your deduction limit to avoid double taxation. The double taxation occurs because you must include the amount in income and may pay tax on the amount when you withdraw it, even though the amount was not deductible when you contributed it.
3. **If (B) - (A) is greater than \$2,000 then you have over-contributed to your RRSP and are incurring a penalty.** Over-contributions in excess of \$2,000 are subject to a 1% per month

Please contact us for more information about the topics discussed in this article.

over-contribution penalty calculated from the month you first exceeded your contribution limit. The penalty will continue to apply until the month you remove the excess or until new contribution room that is sufficient to absorb the over-contribution becomes available to you on January 1st of the following year.

If you are in an over-contribution position in excess of \$2,000 in any year, you are required to file a T1-OVP return: *Individual Tax Return for RRSP Excess Contributions*. This return is used to calculate the penalty owing. The penalty is required to be paid no later than 90 days after the end of the

year (i.e., March 30, 2016 for over-contributions in 2015 and March 31, 2017 for over-contributions in 2016). The completed T1-OVP return and payment must be submitted to your tax centre by this deadline. In this case, you should notify your tax advisor to discuss your options and complete the return on your behalf.

WHAT IF I CANNOT FIND MY NOTICE OF ASSESSMENT?

If you are unable to locate your Notice of Assessment, you can determine your RRSP contribution room by contacting the CRA directly (1-800-267-6999), or by visiting the “My Account” page of the CRA website: <http://www.cra-arc.gc.ca/esrvc-srvce/>

tx/ndvdl/myccnt/menu-eng.html.

To access your information, you are required to register for a CRA user ID and password. This entails entering your social insurance number, your date of birth, and the dollar amount entered on a particular line of your income tax return for either the current or previous tax year. It generally takes between 5 to 10 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 obtaining your RRSP deduction limit and your unused RRSP contributions for the current year.

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