

The Navigator



Wealth
Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



Karim Visram Private Wealth
Management Group
RBC Dominion Securities

**Karim F. Visram, CFA; CPA; CGA, CFP;
FMA**

Vice-President & Director - Portfolio
Manager
karim.visram@rbc.com
416-956-1913

TEAM CONTACT

Website: KarimVisram.com
Team Email: TeamKarim@rbc.com
Team Phone: 416-956-8888

RRSP deduction limit statement

Understanding and interpreting your Notice of Assessment

Shortly after you file your 2018 tax return, you should receive a Notice of Assessment (NOA) from the Canada Revenue Agency (CRA). Here's an overview of the RRSP deduction limit statement ("statement") on your NOA to help you determine the amount you can contribute, how much you can deduct on your income tax return and whether you're in an over-contribution position.

Keep in mind that while this article focuses on your Registered Retirement Savings Plan (RRSP), your RRSP deduction limit also shows 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.

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

The RRSP deduction limit statement

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

RRSP/PRPP deduction limit statement	
For more information about the details listed below or how employer contributions to a PRPP or group RRSP will affect your contribution room for the year, go to http://www.cra-arc.gc.ca/ or refer to Guide T4040, <i>RRSPs and Other Registered Plans for Retirement</i> .	
Description	(\$) Amount
RRSP/PRPP deduction limit for 2018	\$20,007
Minus: Employer's PRPP contributions for 2018	
Minus: Allowable RRSP/PRPP contributions deducted for 2018	\$11,007
Plus: 18% of 2018 earned income, up to a maximum of \$26,500	\$26,500
Minus: 2018 pension adjustment	\$13,640
Minus: 2019 net past service pension adjustment	
Plus: 2019 pension adjustment reversal	\$2,300
RRSP/PRPP deduction limit for 2019 (A)	\$24,160
Minus: Unused RRSP/PRPP contributions previously reported and available to deduct for 2019 (B)	\$3,500
Available contribution room for 2019	\$20,660
Note: If your available contribution room is a negative amount (shown in brackets), you have no contribution room available for 2019 and may have over-contributed to your RRSP/PRPP. If this is the case, you may have to pay tax on any excess contributions.	

*Please note that the letters (A) and (B) are not actually shown on your statement but have been included in this sample for ease of reference and to provide continuity with past statements.

How much can I contribute to my RRSP?

The maximum amount you can contribute to your RRSP without triggering penalty tax is equal to (A) – (B) + \$2,000 where:

- (A) is your RRSP deduction limit for 2019;
- (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 penalty tax.

Using the information from the sample statement, this individual may contribute \$22,660 (\$24,160 – \$3,500 + \$2,000) to their own RRSP or to a spousal RRSP without triggering penalty tax. If this individual would like to deduct the contribution on their 2019 tax return, the contribution needs to be made by the 2019 RRSP deadline of March 2, 2020.

Consider contributing to your RRSP early in the year. 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 you can deduct for 2019 is your 2019 RRSP deduction limit, which is the amount next to the letter (A) in the sample statement. The CRA determines your 2019 limit using information from your 2018 tax return, plus any unused RRSP contribution room carried forward from previous years.

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 doesn't 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 contributes to a Registered Pension Plan or your employer contributes to a Deferred Profit Sharing Plan, your employer 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 or your benefits relating to a previous period of pensionable service are improved, a "past service pension adjustment" (PSPA) is reported to you. Your net PSPA for 2019 will reduce your RRSP contribution room for 2019.

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 have a PAR. A PAR restores your RRSP deduction limit if the amount you receive from the plan is less than the total PAs and PSPAs that were previously reported to you. If you have a PAR in 2019, your RRSP deduction limit for 2019 is increased.

Have I over-contributed to my RRSP?

In order to determine if you've over-contributed to your RRSP, you'll need to refer to the amount next to the letter (B) (as shown on the earlier sample statement) on your statement. This amount represents your unused contributions, which are also known as undeducted contributions. Unused contributions are RRSP contributions you made in previous years, or in the first 60 days of the current year, that were not deducted 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's also possible that you didn't deduct these contributions because you didn't have sufficient RRSP deduction room.

Note that any RRSP contributions you made during the first 60 days of 2019 (i.e. on or before March 1, 2019) should have been reported on Schedule 7 of your 2018 income tax return, even if you did not deduct them. If you did not deduct them, the CRA will report these as unused RRSP contributions (next to where the letter (B) is on the sample statement) on your 2019 RRSP deduction limit statement. Any amounts contributed to your RRSP after March 1, 2019 will not be reflected in your 2019 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, 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, you're 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 have your funds grow on a tax-deferred basis 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 deductions 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. This is important to consider when determining the amount you should contribute to your RRSP when you're nearing retirement.
3. **If (B) – (A) is greater than \$2,000, you have over-contributed to your RRSP and are accruing a penalty.** Over-contributions in excess of \$2,000 are subject to a 1% per month over-contribution tax calculated from the month you first exceeded your contribution limit. The tax will continue to apply until the month you remove the excess or until new contribution room that's sufficient to absorb the over-contribution may become available to you on January 1 of the following year.

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

If you're in an over-contribution position in excess of \$2,000 in any year, you are required to file a T1-OVP, *Individual Tax Return for RRSP Excess Contributions*.

This return is used to calculate the penalty you owe. You are required to pay the penalty and submit the completed return to your tax centre no later than 90 days after the end of the year. If you're in an over-contribution position, you should notify a tax advisor to discuss your options and ensure that the T1-OVP is completed and submitted in a timely fashion.

What if I can't find my Notice of Assessment?

If you're unable to locate your NOA, you can determine your RRSP contribution room by contacting the CRA directly by phone at 1-800-267-6999, using the MyCRA mobile app or visiting the "My Account" page of the Government of Canada website: <https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html>.

This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance 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, legal and/or insurance advisor before acting on any of the information in this article.



**Wealth
Management**

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI) *, RBC Wealth Management Financial Services Inc. (RBC WMFS) and Royal Mutual Funds Inc. (RMFI). *Member-Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate & Trust Services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. © Registered trademarks of Royal Bank of Canada. Used under licence. © 2019 Royal Bank of Canada. All rights reserved. NAV0012 (05/19)