



The Navigator



Wealth
Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

RRSP deduction limit statement

Understanding and interpreting your Notice of Assessment

Shortly after you file your 2017 tax return, you should receive a Notice of Assessment (NOA) from the Canada Revenue Agency (CRA). Here is an overview of how to interpret the RRSP Deduction Limit Statement (“statement”) on your NOA 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.

Although 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.

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

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.

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 <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsps-related-plans.html> or refer to Guide T4040, RRSPs and Other Registered Plans for Retirement.

Description	(\$) Amount
RRSP deduction limit for 2017	\$20,007
Minus: Employer's PRPP contributions for 2017	
Minus: Allowable RRSP/PRPP contributions deducted in 2017	\$11,007
Plus: 18% of 2017 earned income, up to a maximum of \$26,230	\$26,230
Minus: 2017 pension adjustment	\$13,640
Minus: 2018 net past service pension adjustment	
Plus: 2018 pension adjustment reversal	<u>\$ 2,300</u>
 2018 RRSP/PRPP deduction limit (A)	 \$23,890
Minus: Unused RRSP/PRPP contributions previously reported and available to deduct in 2018(B)	 <u>\$3,500</u>
Available contribution room for 2018	\$20,390

Note: If your available contribution room is a negative amount (shown in brackets), you have no contribution room available for 2018 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 which 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 2018;
- (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 \$22,390 (\$23,890 – \$3,500 + \$2,000) to their own RRSP or

to a spousal RRSP without triggering penalty tax. If this individual wishes to deduct the contribution on their 2018 tax return, the contribution needs to be made by the 2018 RRSP deadline of March 1, 2019.

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 2018 is shown on your 2018 RRSP deduction limit, which is the amount next to the letter (A) in the statement. The CRA



Note that any RRSP contributions you made during the first 60 days of 2018 (i.e., on or before March 1, 2018) should have been reported on Schedule 7 of your 2017 income tax return even if you did not deduct them.

determines your 2018 limit using information from your 2017 tax return plus any unused RRSP 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 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 will report a current year PA on your T4/T4A 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 2018 will reduce your RRSP contribution room for 2018.

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 2018, your RRSP deduction limit for 2018 is increased.

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 2018 (i.e., on or before March 1, 2018) should have been reported on Schedule 7 of your 2017 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 the letter (B), on your 2018 RRSP Deduction Limit Statement. Any amounts contributed to your RRSP after March 1, 2018 will not be reflected in your 2017 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 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. Keep this in mind when determining the amount

you should contribute to your RRSP when you are nearing retirement.

- 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 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 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 (i.e., March 31, 2018 for over-contributions in 2017 and March 31, 2019 for over-contributions in 2018). If you are

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 cannot find my Notice of Assessment?

If you are unable to locate your NOA, you can determine your RRSP contribution room by contacting the CRA directly (1-800-267-6999), by using the MyCRA mobile app, or by 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 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 and/or legal advisor before acting on any of the information in this article.



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