



Wealth Management Services

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RSP Deduction Limit Statement

Understanding and Interpreting your Notice of Assessment

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The following article outlines how to interpret your “RSP Deduction Limit Statement” to determine the amount you can contribute to your RSP, how much you can deduct on your income tax return and whether you are in an over-contribution position.

The RSP Deduction Limit Statement

Your RSP 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 RSP for the 2007 tax year, how much you can deduct on your 2007 income tax return and whether you are in an over-contribution position in 2007, you need to refer to your “2007 RSP Deduction Limit Statement” which is attached to your “2006 Notice of Assessment”. Here is an example of such a statement.

2007 RRSP DEDUCTION LIMIT STATEMENT	
RRSP deduction limit for 2006.....	\$20,007
Minus: Allowable RRSP contributions deducted in 2006.....	<u>\$11,007</u>
Unused RRSP deduction limit at the end of 2006.....	\$ 9,000
Plus: 18% of 2006 earned income of \$148,000 = (max. \$19,000) \$19,000	
Minus: 2006 pension adjustment..... \$12,200	<u>\$ 6,800</u>
	\$15,800
Minus: 2007 net past service pension adjustment.....	\$0
Plus: 2007 pension adjustment reversal.....	\$ 4,300
Your RRSP deduction limit for 2007.....	\$20,100 (A)
<p>You have \$ 3,500 (B) of unused RRSP contributions available for 2007. If this amount is more than amount (A) above, you may have to pay a tax on the excess contributions.</p>	

How much can I contribute to my RSP?

(A) – (B) + \$2,000 = the maximum amount which you can contribute to your RSP where:

(A) is your RSP deduction limit for 2007 (see sample statement);

(B) is your unused RSP contributions. “Unused contributions” are RSP 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 his RSP or to a spousal plan during 2007 by the 2007 RSP deadline of February 28, 2008. This is calculated as follows:

$$(A) - (B) + \$2,000 \quad \text{or} \\ \$20,100 - \$3,500 + \$2,000 = \$18,600$$

Keep in mind that the additional \$2,000 over-contribution amount would not be tax-deductible.

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 RSP CONTRIBUTIONS OR “(B)” IN THE STATEMENT?

Unused contributions are also commonly referred to as “undeducted contributions”. If this amount “(B)” is zero then you have already deducted all the contributions you have made in past years.

However, if (B) is greater than zero, than this means that you made RSP 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.

It is also possible that you did not deduct the contributions because you did not have sufficient RSP deduction room. This would imply you had over-contributed to your RSP. (See the following page, for “Have I over-contributed to my RSP?”)

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

How much can I deduct on my tax return?

“(A)” is your “RSP deduction limit for 2007”. It is also the maximum amount of contributions you can deduct on your 2007 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 2007 income tax return.

Refer to the sample statement above. Without making any further contributions during 2007 (or by the 2007 RSP deadline of February 28, 2007) this individual can deduct his \$3,500 of unused RSP contributions (“undeducted contributions”) on his 2007 income tax return. Assuming he wants to maximize his RSPs and makes the additional \$16,600 RSP contributions he’s entitled to make, he will be able to deduct a total of \$20,100 on his return ($\$16,600 + \$3,500 = \$20,100$ or (A) in the statement).

However, if he decides to also make the additional \$2,000 over-contribution amount, this amount will not be income tax deductible for 2007.

Have I over-contributed to my RSP?

If $(B) - (A) > \$0$, then you have over-contributed to your RSP.

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 RSP without penalty. Don’t forget that any contributions that you may have made since the start of 2007 may not be reflected in your statement* and may create an over-contribution amount in excess of \$2,000. Any over-contribution in excess of \$2,000 is subject to the penalty.

If $(B) - (A)$ is $> \$2,000$ then you have over-contributed to your RSP and over-contributions in excess of \$2,000 are subject to a 1% per month over-contribution penalty. Again, any contribution

you may have made since the start of 2007 may not be reflected in your 2007 RSP statement* and would also be subject to the 1% per month over-contribution penalty.

*Note that any RSP contributions you made during the first 60 days of 2007 should have been reported on schedule 7 of your 2006 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, 2007 would certainly not be reflected in your statement.

If you are in an over-contribution position in excess of \$2,000, promptly notify your Investment Advisor to discuss your options.

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