

How Much Can I Contribute to My RSP?

Making RSP contributions continues to be one of the most effective ways to save for retirement. You can deduct your RSP contributions to reduce your taxable income and taxes for the year. The taxes you save represent additional funds you will have to invest or to pay down debt. In addition, the income earned on your RSP contributions will not be subject to tax until it is withdrawn from the RSP, which means that a greater amount can be used to earn additional income inside an RSP.

There is a limit, however, as to the amount that you can deduct as your RSP contribution in a given year. This is known as your **RSP deduction limit**. If the total of your RSP contributions exceeds this limit in a given year, you will not be able to deduct the excess contribution to save tax. Furthermore, you may also be subject to a 1% monthly penalty on all excess amounts over \$2,000.

One of the ways to determine your RSP deduction limit is to refer to your RSP deduction limit statement for the current year. This statement is contained in the Notice of Assessment or Notice of Reassessment that you would have received from Canada Revenue Agency (CRA) after you filed your tax return for the previous taxation year. An example of such a statement is in Table 1.

Table 1

| | |
|---|--------------|
| RSP deduction limit for 2014 | \$19,000 |
| Minus: Allowable RSP contributions deducted in 2014 | \$19,000 |
| Unused RSP deduction limit at the end of 2014 | \$0 |
| Plus: 18% of 2014 earned income \$110,000 (max. \$24,270) | \$19,800 |
| Minus: 2014 pension adjustment | \$0 |
| Minus: 2015 net past service pension adjustment | \$0 |
| Plus: 2015 pension adjustment reversal | \$0 |
| Your RSP deduction limit for 2015 | \$19,800 (A) |
| Your unused RSP contributions available to carry forward to 2015 | \$0 (B) |

2015 RSP Deduction Limit Statement

Your RSP deduction limit is shown on the second to last line (item A) – in this example it is \$19,800. This is the maximum amount you can deduct as your RSP contribution, in the current tax year.



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To determine how much you can contribute, you will also need to know the following:

1. Unused RSP contributions available

First, you need to know if you have any RSP contributions that you made previously for which you have not claimed a deduction (more on this later). This amount can be found on the last line (item B) – your unused RSP contributions available to carry forward to 2015.

- In the preceding example, this amount is zero. This means that all the RSP contributions in prior years have been deducted.
- If this amount was not zero, but say, \$5,000, then you could claim a deduction for \$5,000 on your 2015 tax return without requiring any additional RSP contributions. You could simply contribute an additional \$14,800 (\$19,800 - \$5,000) to maximize your RSP deduction limit for the year. If you contribute more than \$14,800, you will not be able to deduct the excess amount in 2015. You may be able to deduct this amount in a future year if you have earned additional RSP contribution room. If you contribute more than \$16,800, you may be subject to a penalty tax of 1% per month on the excess amount (you are allowed to over-contribute by \$2,000 without attracting a penalty).

2. RSP contributions made during the year

You will also need to know how much you have already contributed to an RSP in 2015. Referring again to the example above, since there is no RSP contribution carryforward from prior years, the maximum amount you can contribute and deduct for 2015 is \$19,800.

- If you have already made RSP contributions (including group RSP contributions) in 2015, you will need to take this into account in determining how much additional contribution you can make.
- You do not need to consider any contributions made from January 1st of 2015 to March 2nd of 2015 if you have already included these contributions in your 2014 tax return.
- You also do not need to consider any contributions you made to a pension plan throughout 2015.

Once you have determined the amount required to maximize your deduction, you have up to March 1st of 2016 to make this contribution and claim the deduction in the 2015 tax year.

Why do I have unused RSP contributions available to carry forward?

The last line of the RSP deduction limit statement tells you whether you have made any prior RSP contributions which you have not yet deducted. It does not tell you whether this undeducted amount resulted from a deliberate decision not to claim the deduction even though you could have (for instance, you are waiting for a year in which you will be in a higher tax bracket to claim the deduction so as to maximize your tax savings), or because you could not claim the deduction (*i.e.*, an over-contribution). Let's use the following example as an illustration.

2015 RSP Deduction Limit Statement

| | |
|---|--------------|
| RSP deduction limit for 2014 | \$19,000 |
| Minus: Allowable RSP contributions deducted in 2014 | \$17,500 |
| Unused RSP deduction limit at the end of 2014 | \$1,500 |
| Plus: 18% of 2014 earned income \$110,000 (max. \$24,270) | \$19,800 |
| Minus: 2014 pension adjustment | \$0 |
| Minus: 2015 past service pension adjustment | \$0 |
| Plus: 2015 pension adjustment reversal | \$0 |
| Your RSP deduction limit for 2015 | \$21,300 (A) |
| Your unused RSP contributions available to carry forward to 2015 | \$4,000 (B) |

This example has a maximum 2015 RSP deduction limit of \$21,300. It also has a \$4,000 unused RSP contributions carry forward. Assuming no RSP contributions have been made in 2015, then an RSP contribution of \$17,300 (\$21,300 - \$4,000) is all that is required to claim the maximum deduction limit. You may be interested to know what caused the \$4,000 carry forward because if it resulted from an over-contribution, you may be subject to the 1% penalty.

You can take the following approach:

- Start by referring to the unused RSP deduction limit at the end of 2014 which is the third line on the RSP deduction limit statement. In this example, we see that this amount is \$1,500. This tells us that an additional \$1,500 could have been deducted in the 2014 tax year, but for whatever reason, it was not done. Based on this information, it is probable that \$1,500 of the \$4,000 carry forward amount represented a deduction that could have been claimed in 2014.
- You would need to check your records to confirm whether the remaining \$2,500 resulted from contributions made within the first 60 days of 2015 (remember RSP contributions made within the first 60 days of the current year are reported in the previous year's tax return) and/or over-contributions from a prior year.
- If you determine that the \$2,500 was contributed between January 1st and March 2nd of 2015, it simply means you have contributed early to your 2015 RSP. There is no over-contribution in this case since the \$2,500 is less than your 2015 RSP room of \$21,300.

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- If you discover that the \$2,500 contribution was made prior to 2015, then a 1% per month penalty may be applied on any amount in excess of \$2,000 from the date of the over-contribution to December 31, 2014. The over-contribution penalty will end starting January 1, 2015 when the new RSP deduction limit, which is greater than the amount of the over-contribution (\$21,300 vs. \$2,500), takes effect.

Please consult with your financial and/or tax advisor to assist you in determining the appropriate amount you may contribute to your RSP.



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