

RRSP Over Contribution Limits



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What Are Your Obligations and Options?

A Registered Retirement Savings Plan (RRSP) is a tax-deferred savings plan designed for Canadians to save toward their retirement. Canada Revenue Agency (CRA) sets limits to how much you can contribute to a RRSP and imposes substantial penalties for RRSP over contributions.

Accordingly, specific actions need to be taken to resolve the issues related to any contributions over the RRSP limit.

RRSP over contribution obligations and options

You are permitted to over-contribute a cumulative lifetime total of \$2,000 to your RRSP without incurring a penalty tax. This \$2,000 over-contribution is not deductible from your income in the current year, but may be deducted in a subsequent year.

Any contributions exceeding the RRSP contribution limit (noted on your Notice of Assessment or Reassessment) by more than \$2,000 will be subject to a 1% penalty tax for each month the over-contributions are outstanding.

If you are in this situation, you have the following obligations and options available:

Obligations: Report and pay the tax

- File Form T1-OVP, "Individual Tax Return for RRSP Excess Contributions", and remit any penalty tax owing to CRA within 90 days from the end of the year.
- Starting on day 91, the CRA will start charging a late filing penalty of 5% of the balance owing, plus compound daily interest and 1% of the balance for every month that the return is late.

Request a waiver of the penalty tax

- File Form RC4288, "Request for Taxpayer Relief - Cancel or Waive Penalties or Interest", or write a letter to CRA showing that the excess contributions arose as a consequence of a reasonable error and that you have taken or are taking reasonable actions to eliminate it.

Option #1: Withdraw the excess contributions subject to withholding taxes¹

- You will receive a T4RSP slip (Box 20) reporting income on your personal tax return (Line 129) in the year the funds are withdrawn from RRSP.
- You may be able to claim an offsetting deduction on your personal tax return using Form T746, "Calculating your Deduction for Refund of Unused RRSP Contributions", which will eliminate the income inclusion.
- Taxes withheld when the withdrawal is made, will be recognized as a tax credit on your personal tax return.

Option #2: If you don't want taxes to be withheld when withdrawing the excess contributions

- File Form T3012A, "Tax Deduction Waiver on the Refund of Your Unused RRSP Contributions", to obtain CRA's approval prior to withdrawing RRSP over-contributions.
- The withdrawal may be delayed for a few months while CRA processes the Form T3012A. You may be subject to the applicable penalties and interest while the excess contributions are outstanding during that time period.
- You will receive a T4RSP slip reporting both an income inclusion (Box 20) and an offsetting deduction (Box 28) in the year the funds are withdrawn from RRSP.
- No taxes will be withheld or payable.

Recommendations:

- Choose Option #1 (withdraw the excess RRSP contributions subject to withholding taxes) and act quickly to reduce the penalty tax and avoid any applicable interest and/or penalties.
- Withdraw the excess contributions by December 31st of the year following the assessment of your personal tax return to ensure you are eligible to claim an offsetting deduction.

For example, if you over-contributed during 2015 or in the first 60 days of 2016, your tax return will typically be assessed during 2016 (assuming you filed it on time) and consequently you must withdraw the over-contributions by December 31, 2017.

- Failure to withdraw the RRSP over contribution amount within the required time period may result in "double taxation" since you will need to pay tax on the amount withdrawn without receiving a deduction for the amount you originally contributed.

(1)10% (5% for Quebec) on amounts up to and including \$5,000; 20% (10% for Quebec) on amounts over \$5,000 up to and including \$15,000; and 30% (15% for Quebec) on amounts over \$15,000.

Please contact **Dagmar Zanic, CPA, CA** or **Michael Li, CPA, CGA** of the **Manning Elliott Tax Team** if you have any questions about CRA limits and withdrawing RRSP over contributions.

The above content is believed to be accurate as of the date of posting. Canadian Tax laws are complex and are subject to frequent changes. Professional tax advice should be sought before implementing any tax planning. Manning Elliott LLP cannot accept any liability for the tax consequences that may result from acting based on the information contained therein.
