PERSONAL **Newsletter**

February 2019 Issue 47

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Registered Retirement Savings Plans — Advantages

With the deadline for Registered Retirement Savings Plan ("RRSP") contribution fast approaching, it is a good time for a refresher on the tax benefits of making contributions to one. RRSPs have considerable tax advantages. The two main ones are as follows.

- Contributions made to an RRSP are tax deductible within certain contribution limits. Because of this, contributions will shelter and defer the tax on other sources of taxable income.
- Investment earnings are not taxed while they accumulate in the RRSP. Therefore, more of the earnings are available to generate income in the plan.

Once funds are taken out of the plan, however, they are taxable. This is an important point to note. Because all funds received from the plan are potentially taxable, the real effect on investment earnings in an RRSP is that tax is deferred until then.

In the meantime, however, the two tax advantages combine to rapidly accumulate capital as earnings are reinvested compared to funds invested in conventional investments. However, certain tax benefits for particular forms of investments, such as the lower capital gains rates and the dividend tax credit, will generally be lost in an RRSP.

There could also be another form of tax savings in that, by the time an individual is taxed on RRSP payments, he or she may have retired and may therefore be in a lower tax bracket. Therefore, the tax on the RRSP earnings withdrawn at this time will be at a lower marginal rate.

Should you have some funds set aside for contribution to your RRSP, there are several important considerations to take into account when planning your contribution for the year. The following are two of those considerations.

1. How much can I contribute for the year?
2. What happens if I over-contribute in the year?

How much can I contribute?

How much you can contribute to your RRSP for 2018 depends upon how much RRSP deduction room you have in 2017.This is an amount that is calculated by the Canada Revenue Agency (the "CRA") and is displayed on your 2017 Notice of Assessment/Reassessment. Sometimes, it may be on Form T1028, *Your RRSP Information for 2018*.

If you do not have a copy of your Notice of Assessment/Reassessment or a T1028, you can find out what your RRSP deduction room is by going to "My Account" on the CRA's website, using the MyCRA mobile app or calling the automated Tax Information Phone service (TIPS) at 1-800-267-6999.

While it is also an amount that can be readily calculated, it can be quite a complicated calculation and it is advisable to either obtain the amount from the CRA, or have your accountant determine the amount for you.

When should I make my contributions?

Contributions for the year 2018 can be made during the 2018 calendar year and the first 60 days of 2019. The deadline for making 2018 contributions will be March 1, 2019.

In making your 2018 RRSP contributions, you must consider not only contributions made in the first 60 days of 2018 which you did not deduct in 2017, but also any contributions made in 1991 through 2017, inclusive, which you could not or did not deduct for those years.

Beginning with contributions for 1991, you may carry these undeducted amounts forward indefinitely, so they are available for deduction in 2018. These amounts should be shown on your Notice of Assessment for 2017 as unclaimed contributions carried forward from previous years.

If you have not kept a copy of your 2017 Notice of Assessment, the deduction amount for 2018 is readily available by calling the CRA, logging into your "My Account" on the CRA web site, using the MyCRA mobile app, or calling TIPS.

What happens if I over-contribute?

If, after determining your deduction amount for 2018, you discovered you have contributed more to your RRSP than what you are allowed, there could be costly consequences. You are allowed to over-contribute to an RRSP provided the over-contribution does not accumulate to more than $2,000. If your over-contribution exceeds $2,000 at any time, you may be assessed a prohibitive monthly penalty tax.

The rules impose a monthly 1% penalty tax on the contributor personally for each month at the end of which the cumulative over-contributions exceed the permitted over-contribution amount of $2,000. The penalty tax for over-contributions is applied at the rate of 1% of the excess amount calculated monthly, so that if, for example, the error is not discovered for a year, the potential penalty will amount to 12% of the over-contribution amount in excess of $2,000.

Further, if you find that you have over-contributed and will be subject to the penalty, you will need to file a Form T1-OVP within 90 days after the end of the year in which the over-contribution occurred. If the form is not filed within 90 days after the end of the year, then a further late-filing penalty is imposed equal to **5% plus 1% per month of the balance owing times the number of months that the return is late, to a maximum of 12 months**. As well, interest at the government-prescribed rates will be applied on the penalty owing if it is not paid by the due date.

Fortunately, the CRA does have the authority to waive the 1% per month penalty tax if you can demonstrate that the over-contribution was inadvertent and reasonable steps were or are being taken to remove the over-contribution.

How should I remove my over-contributions?

A Form T3012A could be used in the year the over-contribution took place, to remove the funds from the RRSP without the usual withholding tax being applied. To obtain a refund without withholding tax, you must fill out Areas I and II on Form T3012A and submit it to your CRA Tax Services Office for certification. When it is returned to you, you can use it to obtain your funds free of withholding tax from your RRSP supplier.

Contributions withdrawn in this fashion must be included on line 129 of your tax return as income and then offset by a deduction of a like amount on line 232 and file a copy of the form with your tax return.

If If excess RRSP contributions are withdrawn without the use of Form T3012A, then tax will be withheld from the amount withdrawn and a Form T746 will be needed to be completed and filed with your tax return in order to obtain a deduction for the withdrawn amounts.

It can become quite a costly and complicated issue when you over-contribute, and it is best to be sure of your deduction room when making your contribution for the year, but if you inadvertently find yourself in a situation where you have over-contributed, avail yourself of a good tax professional to provide the best means to solve the issue at the least cost.