

May 2015

RRSP Excess Contributions

Cheryl Grusnick, CPA, CGA, is a tax manager in the Winchester office of Collins Barrow.

Are you one of the many Canadians who have inadvertently overcontributed to their Registered Retirement Savings Plans? If so, you should be aware that excess RRSP contributions are subject to a penalty tax of one per cent per month of the excess contribution.

What are RRSP excess contributions?

Generally, RRSP excess contributions result when unused RRSP contributions made to the contributor's (or a spouse's or common-law partner's) RRSP plan exceed the RRSP deduction room plus \$2,000 (the allowable overcontribution). Unused RRSP contributions and RRSP deduction room can be found on the RRSP Deduction Limit Statement (attached to the Notice of Assessment), or can be obtained online through the CRA's My Account service.

How does the penalty tax work?

The one per cent per month penalty tax may apply to certain excess contributions made in 1991 and later years that are left in the plan. However, if unused contributions resulted from qualifying mandatory group RRSP contributions, or from contributions made before February 27, 1995, the tax may not be payable on all unused contributions.

The penalty tax applies for each month. Excess contributions remain in an RRSP until the excess amount is reduced by new RRSP deduction room. The CRA provides Form T1-OVP Individual Tax Return for RRSP Excess Contributions to calculate the tax owing. The form is due, along with payment of the penalty tax, no later than 90 days after the end of the year. Failure to file may result in penalties.

It is up to the taxpayer to self-assess the penalty tax on excess contributions. However, if the CRA becomes aware of the situation, it will send a request to file Form T1-OVP.

What do I do with my RRSP excess contributions?

Withdrawing excess contributions is not mandatory. You may carry forward amounts until sufficient RRSP contribution room opens up. This may be the desirable course of action where, for instance, you have overcontributed near the end of the year and, as of January 1, you will have new contribution room to reduce or eliminate the excess contributions. However, the penalty tax will still apply for the period of overcontribution.

Often, however, it is prudent to withdraw the excess contributions as soon as you become aware of the situation, in order to reduce continuing penalties. RRSP withdrawals must be reported as income on your personal income tax return in the year of withdrawal. However, you may be able to claim a deduction equal to the amount withdrawn if you reasonably expected to be able to deduct the contributions, and you withdrew the unused RRSP contributions:

- a) in the year you contributed them, or in the following year; or
- b) in the year you received a Notice of Assessment or Reassessment, or in the following year.

The intent is to allow you to withdraw an overcontribution without tax consequences as soon as you realize the penalty tax may apply. You must withdraw from the same type of plan as that to which the unused contributions were made, either your own RRSP or an RRSP for your spouse or common-law partner.

May 2015

RRSP Excess Contributions

If you overcontributed in 2014, you have until the end of 2016 to remove the excess contributions and have no personal income tax on the withdrawal. The penalty tax still applies during the period of overcontribution.

You may withdraw from an RRSP without withholding tax by completing and filing Form T3012A Tax Deduction Waiver on the Refund of Your Unused RRSP Contributions. This form requests the CRA's approval to remove RRSP overcontributions without having tax withheld. Once the T3012A form is filed, the CRA is aware of the overcontribution and will ask you to fill out the T1-OVP form to calculate the penalty tax.

If you withdraw RRSPs without filing Form T3012A, the issuer of the plan must withhold tax of 10, 20 or 30 per cent, depending on the dollar amount withdrawn. The tax withheld may be claimed on your personal tax return in the year of withdrawal.

Since no T3012A form is filed, the CRA may not become aware of the RRSP overcontribution. However, the onus remains on you to file Form T1-OVP and pay the penalty tax.

The rules for excess RRSP contributions can be complicated and the related forms difficult to complete. From time to time, the CRA contacts individuals who "may" have excess RRSP contributions. However, receipt of a letter from the CRA does not necessarily mean you are offside of the RRSP contribution rules. Contact your Collins Barrow advisor for assistance if you are concerned about RRSP excess contributions.

Cheryl Grusnick, CPA, CGA, is a tax manager in the Winchester office of Collins Barrow.