

UNDERCONTRIBUTIONS AND OVERCONTRIBUTIONS

Where your RRSP contributions deducted for a particular year are less than your annual contribution limits (the maximum you could have contributed based on 18% of prior year earned income up to the dollar maximum) for that year, the difference accumulates and carries forward to provide contribution room in the following years in addition to that arising from immediate prior year's income (and special contributions). This accumulated carry-forward is reported to you on your annual assessment statement from the CRA.

On the other hand, contributions in excess of your accumulated contribution room are not only not deductible, but to the extent they exceed \$2,000 at the end of a month are subject to a monthly penalty tax until they are withdrawn from the RRSP (tax-free, since they were not deducted) or sufficient new contribution room becomes available to shelter them. The \$2,000 is cumulative for all years commencing with 1991. The \$2,000 buffer before penalty applies is intended to provide a margin of protection against inadvertent over contributions. However, some taxpayers use it simply to shelter the income on an additional \$2,000 from tax. Prior to 1996, the \$2,000 buffer was \$8,000; that is, the penalty was only incurred where over contributions exceeded \$8,000.