

RRSP CLINIC

CONTRIBUTION ROOM CAN'T BE CREATED WHERE NONE EXISTS

By GIGI SUHANIC

Question In February, 2003, I purchased a \$2,000 spousal RSP with the expectation that I would be able to claim it on my 2002 tax return under what I understood to be a \$2,000 lifetime overcontribution provision. This claim was denied. In the 2003 tax year I did not make an RSP contribution as I did not have contribution room. However, for the 2004 taxation year I have contribution room as confirmed by the assessment of my 2003 tax return. Can I apply the \$2,000 RSP contribution purchased in February, 2003, as part of my RSP deduction for the 2004 taxation year?

Answer The Canada Revenue Agency allows taxpayers to overcontribute a maximum of \$2,000 above their allowable RRSP limit.

But there's a catch.

The deal is you won't be penalized for that extra \$2,000, which can remain in your RRSP and grow tax-free, but you won't get a deduction, either. Instead, the amount that you overcontributed can be deducted in the next tax year — provided you have room in your RRSP — or carried forward to another year after that.

In response to your description of a spousal RRSP claim being denied, David Phipps, a Certified Financial Planner with Assante Capital Management in Ottawa, says, "I can only assume he means, 'I had no contribution room so I couldn't deduct it.' But [your ability to claim the deduction in a future year when you do have contribution room] doesn't disappear."

Ryan Beebe, a CFP with Caplan Beebe and Associates in Edmonton, notes that if you don't have any contribution room in a given tax year, the overcontribution rule doesn't allow you to create room.

"It would be nice. But no," Mr. Beebe says.

So, for the 2004 tax year you can take that \$2,000 overcontribution and put it toward your 2004 RRSP contribution. But remember, that \$2,000 in no way increases your RRSP limit.

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Need an answer to a question about RRSPs? E-mail fpweekend@nationalpost.com