



Executive Summary

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Tax deferrals allow individuals and businesses to move the payment of tax down the calendar in many ways. They are part of Canada's tax system, from retirement savings, capital gains, to rollovers from one business to another. They help Canadians save, give businesses access to funds to reinvest, and ensure that the timing of tax payments is aligned with when cash is actually available. But their benefits, and the purpose they serve, vary considerably from one measure to the other.

This paper provides a framework to help understand and assess those differences, their economic function, duration, and potential effects. Ultimately, postponing tax tells us only part of the story. To fully understand how deferrals work, we need to identify who benefits, how the money is used, how much control exists over timing and use, and how much tax is eventually paid, if any.

Paying tax later has value, even when the same amount is ultimately paid. This delay in payment can provide taxpayers with money to save and invest as well as help with cash flow. The benefit is directly linked with the length of delay and the flexibility for the taxpayer to decide when to exit. In this respect, deferrals can smooth income over time and potentially align with future changes in tax rates. Some arrangements combine deferrals with provisions that can ultimately exempt income from tax.

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broad families
of deferral

The paper identifies seven broad families of deferral. It is a qualitative review: it establishes a basis for further research rather than estimating fiscal costs or measuring how much additional investment each mechanism generates.

Four main findings emerge.

01 PURPOSE

Deferrals serve different purposes.

Retirement measures are meant to help people save and spread income over their lives, while taxing capital gains when assets are sold is supposed to help align tax payments with available cash. Rollovers may ease changes in ownership or legal structure, and accelerated deductions are designed to encourage investment. Each should be judged against its purpose.

02 DURATION AND CONTROL

The length of the delay and control over its timing matter.

Some accelerated deductions reverse fairly quickly, while unrealized capital gains and retained corporate earnings can defer personal tax for years, with taxpayers often choosing when to trigger it. Retirement plans also offer long deferrals, but contribution limits and mandatory withdrawals restrict that flexibility. Each should be assessed against both its duration and the control it gives taxpayers.

03 USE OF FUNDS

How the money is used matters as much as how long tax is postponed.

Retained earnings can help a business buy equipment, expand or cover future expenses. They can also fund passive investments that provide a reserve for the business and finance activity elsewhere. Each use should be assessed against the deferral's purpose and whether it encourages investment that would otherwise not occur.

04 INTERACTIONS

Tax provisions need to be examined together.

Corporate ownership, capital-gains rules, rollovers and trusts can interact to extend deferrals or change the eventual tax outcome. Looking at each provision separately can miss these broader effects.

NEXT PHASE OF RESEARCH

These findings point toward a second phase of research focused on the value of selected deferrals, who benefits and what they achieve. Priorities include capital gains, retained corporate earnings and passive investments, and selected rollover and estate arrangements. Accelerated cost recovery would offer a useful comparison because eligibility is directly tied to qualifying investment. Further analysis would examine whether it generates new investment, brings planned spending forward or mainly benefits spending that would have occurred anyway.

That research would also consider options to simplify the system. The aim would be to preserve justified relief while assessing whether existing arrangements deliver benefits that warrant their costs in revenue, complexity and fairness.

ABOUT

This is the executive summary of *Hitting Snooze on the Tax Bill: Understanding tax deferrals in Canada* (October 19, 2026).

Established in 2025, the Canadian Tax Observatory is an independent charitable organization devoted to helping people and policymakers understand the tax system. Through research, public education and collaboration, our goal is to advance a tax system that promotes economic growth, shared prosperity and tax fairness. The founding CEO is Heather Scoffield.