

Hitting Snooze on the Tax Bill

Understanding tax deferrals
in Canada

FULL REPORT

Jean-François Ruel



The Canadian
Tax Observatory

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CANADIAN TAX OBSERVATORY

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.

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AUTHOR

Jean-François Ruel
Senior Economist
Canadian Tax Observatory

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AUTHOR'S RESPONSIBILITY

The analysis, interpretations, findings and conclusions presented in this paper are those of the author, who retains full responsibility for its content.

Generative Artificial Intelligence (AI) was used as a supplementary tool for preliminary information gathering and source identification, and to assist with editing for clarity, organization and wording. It did not replace primary source research or the author's analytical judgment. The author independently reviewed all material included in the paper and verified the sources and information relied upon.

Executive Summary

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.

7

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.

1 PURPOSE

Assess each deferral against its purpose.

Retirement measures support saving and income smoothing; realization rules help align tax with available cash.

Rollovers support continuity, while accelerated deductions aim to encourage investment.

2 DURATION AND CONTROL

Assess both the delay and who controls it.

Some deductions reverse quickly; capital gains and retained earnings can defer personal tax for years.

Retirement plans also allow long deferrals, but limits and mandatory withdrawals restrict flexibility.

3 USE OF FUNDS

Consider how the deferred funds are used.

Retained earnings can finance equipment, expansion, future expenses or passive investments.

Assess whether each use serves the measure's purpose and generates investment that would otherwise not occur.

4 INTERACTIONS

Examine tax provisions together.

Corporate ownership, capital-gains rules, rollovers and trusts can extend deferrals or change the eventual tax outcome.

Assessing provisions separately can miss these combined effects.

NEXT PHASE OF RESEARCH

Further research will assess the value, beneficiaries and outcomes of selected deferrals. Priorities include capital gains, retained corporate earnings, passive investments, and selected rollover and estate arrangements. Accelerated cost recovery offers a comparison because eligibility is tied to qualifying investment.

The analysis will distinguish new investment from spending brought forward or spending that would occur anyway, and examine simplification while preserving justified relief and weighing investment incentives against revenue, complexity and fairness.

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Introduction

Economies around the world are engulfed in a frenetic race to attract and spur investment, and Canada is at the head of the pack. In an effort to boost growth, productivity and competitiveness all while diversifying away from the United States, Canadian economic policy must meet the moment.

Our tax system may well be a useful tool in this mission, but the system carries within it many, many measures from politics of the past. Most notably, tax deferrals of various shapes and sizes have been added to the system throughout the course of our economic history. Some of them encourage productive investment, others were set up for different reasons, and others still have become tax-planning tools that have drifted far from their intended purposes.

This paper sets out a framework to categorize and analyze this popular mechanism, laying the groundwork for further research into how tax policy can best be deployed to ensure the Canadian economy can indeed “pivot”, as Prime Minister Mark Carney likes to say.

There are multiple ways to work within the rules of the tax system to reduce or defer taxes otherwise owed. This paper reviews tax deferral mechanisms which postpone taxation through measures such as delayed recognition of income or gains, or accelerated deductions. Although these mechanisms share a timing benefit, they differ in their policy rationale, duration, the control taxpayers have over when tax becomes due, and their influence on investment decisions.

The review considers why these mechanisms exist and how they operate. Some serve relatively direct policy objectives such as supporting retirement saving, business investment, liquidity or continuity of investment. Others arise from the broader structure of the tax system. Understanding these differences provides a starting point for assessing whether each mechanism continues to fulfil its intended role.

A central question is how the capital made available by deferral is ultimately used, including whether it supports active business operations or accumulates in passive investments. The economic effects may also depend on how long taxation is postponed, how much control taxpayers have over that timing, and how individual mechanisms interact. Examining a deferral in isolation may therefore provide an incomplete picture of its effects.

This review establishes a foundation for future research into these questions. It helps identify where further evidence is needed to assess investment outcomes, alignment with policy objectives, potential policy leakage and where tax benefits support uses or outcomes beyond those intended.

Working definition: A tax deferral occurs when the tax system postpones recognition, inclusion, or payment of tax that would otherwise arise earlier, allowing income or capital to remain untaxed or taxed at a lower rate for a period of time, with tax generally expected to arise at a later event or date.

A deferral is not necessarily a tax reduction, at least not in the nominal sense. Its value comes partly from the time value of money: tax paid later has a lower present value than the same amount paid today. Differences between current and future tax rates may also affect the eventual benefit. Some arrangements may begin as deferrals but effectively become exemptions if tax is never collected.

Measures that permanently exclude income or gains from taxation, such as income earned in a Tax-Free Savings Account (TFSA) or gains covered by the principal residence exemption, are not treated as deferrals. Tax credits that directly reduce tax payable rather than shift its timing are also outside the main scope of this review. While these measures may provide significant tax advantages, they reduce or eliminate tax rather than merely postpone it. Some may nevertheless be discussed as boundary cases to clarify the distinction between deferrals and other forms of tax preference.

Tax deferral studies in Canada

Several evaluations of individual tax-deferral mechanisms have been done in the Canadian context, but this review did not identify a recent published study that systematically maps tax deferral across the federal income tax system from an economic perspective.

The Department of Finance Canada *Report on Federal Tax Expenditures* comes closest, but is fundamentally an inventory of tax expenditures, organized largely by policy subject. The definition of tax deferral used in this study is consistent with the approach taken by the Department of Finance where they classify a “timing preference” as a measure that permits tax to be deferred compared to a benchmark treatment, including by delaying the recognition of income or gains or by accelerating deductions. They also recognize that the economic value of a deferral is not limited to whether tax is ultimately collected. Because of the time value of money, postponing a tax liability can provide a benefit to the taxpayer even where the same amount of tax is eventually paid in the future.

Tax Deferrals: Scale and Reachⁱ

Tax deferrals are a common feature of the Canadian tax system. Dozens of measures reach groups ranging from millions of people to a small share of taxpayers.

Approximately \$2.6 trillion

Assets in Canadian trustee employer pension funds at the end of 2025, illustrating the scale of capital accumulated within tax-assisted workplace pension plans.

3.15 million taxpayers | \$63.6 billion

Individuals reporting taxable capital gains and their total taxable capital-gains amounts in 2024 (representing 50% of capital gains). These figures capture gains realized and taxed during the year, rather than the much larger stock of accrued but unrealized gains.

The methodology

Tax deferrals can provide special treatment relative to a benchmark tax system. In plain language, a benchmark is the starting set of rules used for comparison: it establishes when income would normally be taxed and when expenses would normally be deducted. A deferral can depart from these rules by postponing the recognition of income or gains, or by allowing deductions earlier. The choice of benchmark matters, because some timing rules may be considered part of the basic tax system rather than special treatment. This review therefore considers deferral broadly, without assuming that every mechanism examined is formally classified as a tax expenditure.

Each tax-deferral mechanism will be reviewed using the same set of dimensions so that the measures can be compared on a consistent basis. The analysis will first look at the basic features of each mechanism: what type of deferral it is, its policy purpose, who can use it, the assets or activities involved, and the nature of the tax treatment. This will help show where measures serve similar purposes but operate in different ways.

The review will then consider how the deferral works over time. This includes when the deferral starts, what event brings it to an end, how long it can potentially last, whether the tax is ultimately recovered, and how much control the taxpayer has over the timing. The analysis will also look at the type of activity the measure tends to support, including active versus passive investment, domestic versus foreign investment, whether there is a strong liquidity reason for allowing the deferral (meaning the taxpayer may hold valuable assets but lack readily available cash to pay the tax), and whether the measure may encourage taxpayers to hold assets longer than they otherwise would.

A final set of dimensions will look at the measure in the broader tax system. This includes how it interacts with other tax provisions, who is able to benefit from it, its

level of complexity, and whether it creates significant opportunities for tax planning or policy leakage. Based on the available evidence, each mechanism will also receive a preliminary assessment of whether it appears more closely aligned with productive investment, neutral saving, mixed outcomes, or possible policy leakage. The review will also identify where the evidence is weak or where a measure may warrant more detailed analysis in a possible Phase II. These assessments will be treated as preliminary and evidence-informed, rather than as definitive conclusions about the economic effects of each measure.

One of the objectives of this review is to create a summary classification of the type of economic activity each measure supports. To do so, a definition will be helpful in framing the results looking at what is productive, passive, neutral, and, ultimately if there is policy leakage between these objectives.

- **Productive investment:** access to the deferral is directly conditional on capital being deployed in an active business or qualifying productive asset.
- **Neutral saving/timing:** the deferral primarily seeks to neutralize timing, liquidity, or lifecycle effects without directing capital toward a particular activity.
- **Passive capital accumulation:** the tax benefit permits capital to compound without requiring continuing deployment in an active business.

Note that international tax deferrals are outside the scope of this paper. While they form an important part of the broader tax system, the rules governing foreign-source income, foreign affiliates and other cross-border arrangements are sufficiently complex and distinct that they would warrant a separate, dedicated analysis.

Family of deferrals

The study identifies seven economically distinct families of deferral:

	Family	Economic logic	Examples
1	Lifecycle and registered-plan deferral	Shift taxable income from earning/saving years to later consumption years	RRSP/RRIF, RPP, PRPP, DPSP; RESP and RDSP for investment earnings
2	Realization and multi-period recognition	Tax economically accrued amounts only when realized or proceeds become receivable	Unrealized capital gains; five- and ten-year capital-gain reserves
3	Entity-level and organizational deferral	Tax income first inside an entity and postpone a subsequent taxpayer-level tax	Retained earnings of private corporations

	Family	Economic logic	Examples
4	Accelerated cost recovery	Deduct capital costs earlier than benchmark depreciation	Immediate expensing, accelerated CCA
5	Rollover and continuity deferral	Carry tax basis into replacement property, shares, a spouse, a successor or another legal form	Partnership rollovers; replacement property; spousal and farm/fishing rollovers; small-business reinvestment rollover;
6	<i>Intertemporal income measurement and cash-flow timing*</i>	<i>Recognize income, expenses or losses across taxation years in a way that better reflects cash flow or multi-period economic income.</i>	<i>Farming/fishing cash-basis accounting; non-capital and capital loss carryovers;</i>
7	<i>International deferral and anti-deferral boundary**</i>	<i>Canadian taxation of certain foreign business earnings is postponed until distribution; other foreign income is taxed as earned or qualifies for exemption.</i>	<i>Active-business earnings included in foreign-affiliate taxable surplus; FAPI rules limiting deferral; exempt-surplus treatment as a boundary with exemption.</i>

The taxonomy is broader than the set of mechanisms examined in detail below

The detailed assessment focuses on selected major mechanisms within the first five families. Other domestic timing mechanisms are briefly described to establish the framework's coverage, while international mechanisms remain outside the scope of the analysis.

Some arrangements combine several tax provisions, making their overall effect less apparent when each mechanism is considered separately. Two examples warrant explicit attention: estate freezes combined with discretionary trusts, and corporate-owned exempt life insurance. The former can extend deferral through successive ownership changes while preserving accrued gains for later taxation. The latter combines relief from annual taxation of policy growth with potentially tax-free death benefits and shareholder distributions, placing it at the boundary between deferral and exemption. These arrangements are considered within the existing families, with particular attention to their interactions, potential duration and whether tax is ultimately collected.

*Some measures in this category are timing rules rather than tax deferrals in the conventional sense. Cash-basis accounting can defer recognition where income is received after it is earned, but can also delay deductions where expenses are paid after they are incurred. Loss carryovers preserve losses for use in other taxation years and allow tax liability to be assessed over a longer period; they do not necessarily

postpone tax that would otherwise have been payable and may instead defer the taxpayer's use of a deduction.

**As mentioned earlier, international tax deferrals are outside the scope of this study. While they are an important part of the broader tax system, the rules governing foreign-source income, foreign affiliates and related cross-border arrangements are sufficiently complex and distinct that a meaningful assessment would warrant a separate, dedicated study.

Deferral within a broader tax incentive

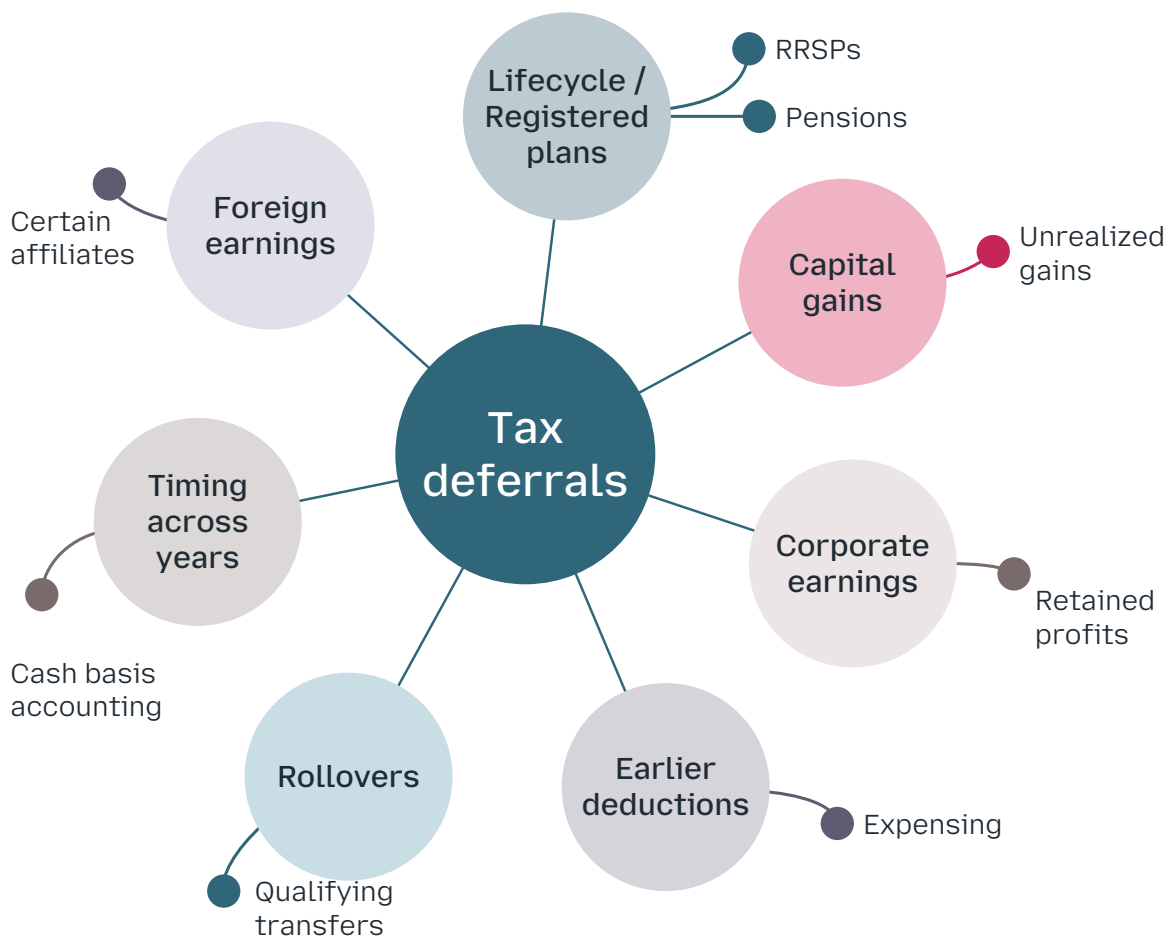
Other tax arrangements can also affect the timing of taxation while combining several forms of tax support. Flow-through sharesⁱⁱ, for example, allow eligible corporations to transfer qualifying expense deductions to investors, who may claim an earlier deduction. Flow-through shares are therefore acknowledged here as a related mechanism but are not included in the detailed comparison. Assessing their effects would require separating the timing benefit from the transfer of deductions and any permanent reduction in tax.

Given its more direct quantitative focus, Phase II could examine arrangements that combine deferrals with other components of the tax system where their scale or economic significance warrants closer analysis, even if they are not explicitly itemized in this paper.

Examples of tax deferral mechanisms

THE FAMILY MAP

Seven forms of tax deferrals



This organization is deliberately economic rather than statutory. The provisions may sit in different parts of the Income Tax Act, but the useful analytical question is whether they perform the same economic function.

Deferral mechanisms

Lifecycle and registered-plan deferralⁱⁱⁱ

How it works

Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) are good examples of deferrals through registered plans. They are primarily retirement-saving mechanisms designed to help individuals smooth income over their lifetime. Contributions to an RRSP are deductible from taxable income, while investment income earned within the plan is not taxed as it accrues. Tax is instead paid when funds are withdrawn, either directly from the RRSP or later through a RRIF. The deferral can therefore last for several decades.

In the case of RRSP, the mechanism generally represents a true timing deferral rather than a permanent exemption, since withdrawals are ultimately taxable. However, the tax rate at withdrawal may differ from the rate that applied when the contribution was made. In fact, expectation is that in most cases retirement income will be lower than working income, putting withdrawals taxed within lower tax brackets. Taxpayers also have some control over the timing of contributions and withdrawals, although this flexibility is constrained by contribution limits and mandatory RRIF withdrawal rules.

Category:

Household / retirement

Policy purpose / rationale:

Retirement saving and income smoothing

Main taxpayer group:

Individuals with contribution room

Asset / activity:

Financial investments

Nature of tax treatment:

Deduction upfront + tax-deferred investment income; withdrawals taxable

Economic rationale

From an economic perspective, RRSPs mainly support passive household saving rather than direct productive investment, and funds can be invested in both Canadian and foreign assets (the foreign property rule was removed as part of Budget 2005, allowing broader international diversification opportunities for retirement). The liquidity rationale for the deferral is relatively weak, since the measure is primarily intended to encourage retirement. Lock-in and tax-planning risks are also relatively limited, and contained within the contribution limits.

Access and assessment

Access to the benefit varies, however, since its value depends on having taxable income, available contribution room, and the financial capacity to save. RRSPs may also interact directly or indirectly with other parts of the retirement-income system, including workplace pensions, OAS and GIS. Overall, the mechanism can be characterized as broadly neutral and retirement-oriented, with a relatively clear policy

rationale and a substantial existing evidence base. It would therefore likely be a lower priority for detailed Phase II analysis.

Related arrangements

RRSPs and RRIFs are part of a broader group of registered plans that provide similar forms of tax deferral, although the policy objectives and detailed tax treatment vary. These include Registered Pension Plans (RPPs), Pooled Registered Pension Plans (PRPPs) and Deferred Profit Sharing Plans (DPSPs), as well as Registered Education Savings Plans (RESPs) and Registered Disability Savings Plans (RDSPs), where the principal deferral relates to investment income earned within the plan. Rather than examine each of these arrangements separately, this paper uses RRSPs and RRIFs as the main illustration of registered-plan deferral and notes the other plans as related mechanisms within the same broader category.

Related timing relief also arises through certain employment compensation arrangements outside registered plans. Examples include qualifying deferred share units, employee benefit plans and deferred-salary leave arrangements. For qualifying CCPC employee stock options, taxation of the employment benefit can be postponed until the acquired shares are disposed of. These mechanisms can support employee retention, ownership or income smoothing, but access depends on the employer and the arrangement. They should not be treated as a general ability to defer salary. Their economic assessment must also consider employer deductions and any plan-level taxation, rather than employee taxation alone.

Realization and recognition^{iv}

How it works

Capital gains are generally taxed when an asset is sold or otherwise disposed of, rather than as the gain accrues. This approach reflects both administrative considerations and a liquidity concern: until an asset is sold, the taxpayer may not have received any cash with which to pay the tax. The result, however, is that tax on an accrued gain can be deferred for a very long period.

Unlike many other deferral mechanisms, taxpayers often have significant control over when the tax becomes payable because they can choose when to dispose of an asset. There are, however, important limits. For individuals, death generally brings accrued gains into taxation, even if the assets have not been sold (a qualifying transfer to a spouse or common-law partner can extend the deferral).

Category:
Capital gains / realization

Policy purpose / rationale:
Tax gains when they are realized rather than accrued; administrative and liquidity considerations

Main taxpayer group:
Individuals, corporations

Asset / activity:
Capital property

Nature of tax treatment:
Accrued gain not taxed until realization

Leaving Canada can also bring accrued gains into taxation. Trusts can face a similar tax calculation every 21 years, based on the assets' value at that time.

Tax is generally recovered when the gain is realized, although other provisions, such as rollovers or exemptions, can further extend deferrals. This makes realization-based taxation particularly important when considering interactions across the tax system.

Economic effects

The economic effects depend heavily on the underlying asset. Capital gains may arise from productive business investment, financial assets, real estate, or other forms of wealth, and the assets may be located in Canada or abroad. A key concern is the potential lock-in effect: because selling an appreciated asset triggers tax, taxpayers may have an incentive to continue holding it even when reallocating the capital would otherwise make economic sense.

Access and assessment

The benefits of deferral also tend to be concentrated among taxpayers who own appreciating assets. Combined with the potential length of the deferral and the ability to influence the timing of realization, this raises broader questions about wealth accumulation and distribution. The mechanism can therefore be characterized as neutral to mixed: there is a clear administrative and liquidity rationale for taxing gains at realization, but the resulting deferral can also affect investment decisions and facilitate long-term wealth accumulation. These issues make realization-based capital gains taxation a strong candidate for more detailed Phase II analysis, particularly with respect to lock-in, asset allocation, and wealth accumulation.

Special case - Capital-gains reserve^v

The capital gains reserve allows taxpayers, in certain circumstances, to recognize a capital gain over several years when the proceeds from a disposition are received over time. Unlike realization-based taxation, where tax is deferred because an asset has not yet been disposed of, the reserve applies after a disposition has occurred and the gain has been realized. Its main policy purpose is to better match the recognition of the gain with the receipt of the sale proceeds and to reduce liquidity pressures that could arise if tax were payable immediately on amounts that have not yet been received.

The deferral is generally short to medium term. For most dispositions, the reserve allows recognition of the gain to be spread over a maximum period of five years, with at least one-fifth of the gain recognized in the year of sale and on a cumulative basis for each of the following four years. A ten-year period is available for certain transfers of farm or fishing property and qualified small business corporation shares to children. The liquidity rationale is therefore relatively strong, particularly where a seller accepts payment over several years rather than receiving the full proceeds at the time of sale. Because the asset has already been disposed of, the mechanism does not create the same lock-in incentive associated with realization-based taxation. Finance Canada's 2026 tax expenditure report projects the 2026 federal personal income tax cost at \$25 million for the five-year reserve for individuals and \$70 million for the ten-year

reserve. These relatively modest estimates, together with the limited duration and clear liquidity rationale, support the mechanism's lower priority for Phase II analysis.

Overall, the capital gains reserve can be characterized as neutral and liquidity-oriented. Its primary effect is to adjust the timing of tax recognition to better reflect when sale proceeds are actually received, rather than to favour a particular type of investment or asset. The relatively limited duration of the deferral, the eventual recognition of the gain, and the absence of a significant lock-in effect suggest that its main policy role is one of timing and liquidity rather than long-term wealth accumulation. It is therefore not recommended as a priority for detailed Phase II analysis, although it could serve as a useful comparator for mechanisms with longer duration, greater taxpayer control and less certain policy alignment.

Entity-level and organizational deferral^{vi}

How it works

Retained earnings in Canadian-Controlled Private Corporations (CCPCs) can provide an important source of capital for business reinvestment and growth. Active business income is first taxed at the corporate level, while the additional personal tax that would generally arise when income is distributed to the shareholder is deferred as long as the funds remain in the corporation. This allows businesses to retain more after-tax capital for working capital, expansion, equipment, hiring, or other business needs.

Indeed, from Budget 2015 (Annex 5.1), we have “The [small business] deduction is intended to enhance the deferral of income tax on active business income that is retained in a private corporation, therefore encouraging the reinvestment of after-tax income for further growth.”

The deferral can be substantial and potentially long-lasting because incorporated business owners generally have significant control over when retained earnings are distributed. Where the corporate tax rate on business income is lower than the personal tax rate that would apply if the income were earned directly, incorporation allows more after-tax income to remain available for reinvestment. The size of this initial advantage depends on the applicable corporate rate, including eligibility for the small business deduction, and the owner's personal tax position. Personal-level tax is generally deferred until earnings are distributed or otherwise extracted from the corporation, although the eventual tax amount depends on the applicable tax rate and the operation of the broader corporate-personal tax integration system.

Category:

Business reinvestment

Policy purpose / rationale:

Preserve business capital for reinvestment and growth

Main taxpayer group:

Incorporated business owners

Asset / activity:

Active business assets / working capital

Nature of tax treatment:

Corporate tax paid initially; personal tax delayed until distribution

Active business investment

Where retained earnings are used to finance active business operations, the mechanism can be closely aligned with productive investment. It may help businesses manage liquidity, finance investment internally, and avoid the need to raise external capital. The liquidity rationale is therefore stronger than for many household saving mechanisms. At the same time, retained earnings are not necessarily kept in active business assets. Funds can eventually be redirected toward passive investments or other uses, which makes the distinction between productive reinvestment and passive accumulation particularly important.

Passive investment

Unlike retained earnings used directly in an active business, passive investments have a less direct productive-investment rationale, although they may provide liquidity for future business needs. Where they are funded from retained active business earnings, the initial deferral advantage arises because paying corporate tax without immediately paying personal tax can leave more funds available to invest. The income subsequently earned on those investments is subject to separate rules, including refundable corporate taxes designed to limit personal tax deferral. The funds may be invested in either Canadian or foreign assets, and their economic role depends on whether they support future business needs or primarily serve the owner's wealth accumulation. This does not necessarily mean that passive investment inside a corporation represents inappropriate tax planning, but holding investments primarily for wealth accumulation raises a different policy question from the retention of earnings needed for working capital, expansion, or other active business purposes.

From the 2017 Department of Finance Canada paper *Tax Planning Using Private Corporations*ⁱ, we have: “Holding a passive investment portfolio inside a private corporation, which may be financially advantageous for owners of private corporations compared to other investors. This is mainly due to the fact that corporate income tax rates, which are generally much lower than personal rates, facilitate the accumulation of earnings that can be invested in a passive portfolio.”

Limits and interactions

Over time, reforms have partly constrained the tax advantage associated with accumulating passive investments inside a private corporation. For example, under current rules a CCPC's access to the federal small business deduction can be progressively reduced where it and associated corporations earn significant passive investment income. This reduces the amount of active business income eligible for the lower corporate tax rate, narrowing the initial advantage from retaining earnings for investment without eliminating the deferral of personal tax until distribution. Budget 2025 also proposed restrictions on dividend refunds to prevent affiliated corporations from using different taxation year-ends to delay tax on investment income. These measures address distinct sources of tax advantage: access to the lower rate on business earnings and timing opportunities within the refundable-tax system.^{vii}

The tax treatment of retained earnings also interacts closely with dividend taxation, capital gains rules, passive investment provisions, and the broader system of corporate-personal tax integration. This makes the mechanism relatively complex and concentrates its benefits among incorporated business owners. Overall, retained earnings used in active businesses can be characterized as productive to mixed. The policy rationale for allowing businesses to retain capital is strong, but the degree to which the resulting deferral supports productive investment rather than longer-term passive wealth accumulation remains an important empirical question. This makes it a strong candidate for Phase II analysis.

Special case - Corporate-owned exempt life insurance

Corporate-owned exempt life insurance combines insurance protection with passive investment accumulation and sits at the boundary between tax deferral and exemption. While a policy maintains its exempt status, growth within it is not taxed annually in the policyholder's hands. Surrender or withdrawal may produce a taxable policy gain, whereas borrowing from a third party against the policy generally does not itself trigger a disposition. At death, the corporate beneficiary generally receives the proceeds tax-free. These proceeds, less the policy's adjusted cost basis and other required adjustments, generally increase the capital dividend account, permitting tax-free distributions to Canadian-resident shareholders subject to the applicable conditions. The preferential treatment can therefore culminate in permanent exemption rather than eventual tax recovery.

From an economic perspective, these arrangements can provide liquidity for business succession and estate obligations while supporting passive wealth accumulation. Access to the preferential treatment is not directly conditional on productive investment by the policyholder, so their preliminary economic alignment is mixed. Their potentially lifelong duration, interaction with retained corporate earnings and combination of timing benefits and permanent exemption make them relevant for Phase II. Further analysis could establish their scale and distribution, examine who benefits, and distinguish the role of insurance protection from the tax advantages associated with investment accumulation.

Accelerated cost recovery^{viii}

How it works

Accelerated capital cost allowance (ACCA) allows businesses to deduct the cost of eligible depreciable assets more quickly than under the ordinary depreciation schedule. Its main policy purpose is to encourage or advance investment in productive capital, such as machinery and equipment, by reducing taxable income earlier in the life of the investment.

The tax benefit generally arises when an eligible capital investment is made. Because deductions are claimed sooner, businesses receive an earlier tax benefit, while deductions available in later years are correspondingly reduced and amounts may ultimately be subject to recapture. The duration of the timing advantage depends on how quickly the cost would otherwise have been deducted and can be substantial for assets with slow benchmark cost recovery. Much of the tax advantage is recovered through timing, although the earlier deduction still provides a present-value benefit to the business.

Category:

Business investment

Policy purpose / rationale:

Encourage or advance investment in productive capital

Main taxpayer group:

Businesses

Asset / activity:

Machinery, equipment and other depreciable capital

Nature of tax treatment:

Deductions occur earlier than economic depreciation / ordinary schedule

Timing and investment

Taxpayers have relatively limited control over the duration of the deferral once the investment has been made, since the timing is largely determined by the applicable CCA rules. The measure is also closely tied to active business investment and generally supports capital deployed in Canadian business operations. Its liquidity rationale is moderate: accelerated deductions can improve cash flow at the time a business is making a significant capital investment, but the measure is primarily intended to influence investment decisions rather than address an inability to pay tax.

Accelerated CCA can interact with other investment incentives, credits, and deductions, although the opportunities for tax planning or policy leakage are generally more limited than for some other forms of deferral. Access to the benefit nevertheless depends on a business having the capacity and incentive to undertake qualifying investment.

Overall, accelerated CCA can be characterized as productivity-oriented. It provides a useful benchmark against which other deferral mechanisms can be assessed because its policy objective is explicitly linked to business investment. It may warrant further analysis, particularly as a comparator for evaluating whether other tax deferrals are similarly effective at directing capital toward productive uses.

Related measures

Accelerated CCA forms part of a broader family of accelerated cost-recovery measures. These include the Accelerated Investment Incentive (AII) and its reinstated successor, the Reaccelerated Investment Incentive (RII), which enhance first-year deductions for qualifying property, alongside immediate-expensing measures that allow the full eligible capital cost to be deducted in the year the property becomes available for use¹. These measures operate directly through the CCA system by changing the timing or amount of deductions available in the early years of an investment, rather than by creating a separate deduction outside that system. While the degree of acceleration varies, from enhanced first-year allowances to full expensing, the underlying deferral mechanism is similar: deductions are brought forward, reducing tax in the early years while generally reducing deductions that would otherwise have been available later. Accelerated cost recovery also operates outside the CCA system. Examples include immediate deductions for eligible current SR&ED expenditures and deductions under resource expenditure regimes, such as Canadian exploration expenses. Where spending creates benefits extending over several years, early deductibility can provide a timing advantage relative to capitalization and deduction over the period those benefits arise. These mechanisms extend the analysis beyond physical assets to knowledge creation and resource exploration, making the choice of benchmark particularly important.

On September 15, 2026, the federal government proposed the Productivity Mega Deduction, which would provide immediate expensing to a broad class of assets and make it permanent for eligible investments. The proposal would generally apply to qualifying depreciable property acquired on or after that date, with the deduction available when the property becomes available for use. It would also permit immediate deduction of qualifying Canadian development expenses. The government estimates that approximately two-thirds of investment in capital assets would be eligible. The proposal represents a substantial expansion of accelerated cost recovery rather than a separate family of tax deferral.

Accelerated cost recovery can be characterized as productivity-oriented because access to the tax benefit is directly linked to qualifying capital investment. Its clear policy rationale provides a basis for assessing whether bringing deductions forward encourages additional investment, advances investment that would otherwise occur later, or mainly benefits spending that would have occurred anyway. These questions make it a strong candidate for Phase II analysis, particularly to assess its effects on investment decisions and the alignment of outcomes with policy objectives. It would also provide a useful comparator for deferrals where the continued use of capital in active business operations is less directly assured.

¹ Both accelerated CCA and immediate expensing bring deductions forward, with immediate expensing allowing the full eligible cost to be deducted in the first year. Their economic effects depend partly on interactions with other tax rules. In particular, immediate expensing combined with deductible interest on investment borrowing can produce a negative marginal effective tax rate, effectively subsidizing the marginal investment. This outcome depends on the financing arrangement, applicable tax rules and the business's ability to use the deductions.

Rollovers and continuity provisions^{ix}

How it works

Tax-deferred rollovers allow property to be transferred, reorganized or passed to another taxpayer without immediately recognizing some or all of the accrued gain that would otherwise arise. Their basic rationale is continuity: where the underlying economic investment remains in place, immediate taxation may be inappropriate simply because its legal ownership or organizational form has changed. The deferred gain is generally preserved in the tax cost of the transferred property and becomes taxable on a later disposition or other triggering event.

Rollovers are used in a wide range of personal and business transactions. Although the legal provisions differ, their common feature is that accrued gains or recapture are postponed rather than permanently eliminated. The main categories are summarized below.

Category:

Rollover / Restructuring / Estate

Policy purpose / rationale:

Avoid tax where legal ownership changes but economic investment is considered to continue

Main taxpayer group:

Businesses/Individuals/Family

Asset / activity:

Businesses, shares, property

Nature of tax treatment:

Recognition of accrued gain postponed

Main rollover grouping	What it covers	Examples of transactions covered
Transfers to corporations and partnerships	Property can, in specified circumstances, be transferred to a Canadian corporation or partnership without immediately recognizing all of the gain that would otherwise arise on the transfer.	Incorporating a business; transferring property to a corporation; transferring property to a Canadian partnership.
Share exchanges and corporate reorganizations	Certain exchanges or reorganizations of corporate ownership can occur on a rollover basis, including qualifying exchanges of shares, amalgamations and corporate wind-ups.	Share-for-share exchanges; "exchanges of shares in a reorganization of corporate capital; qualifying amalgamations; qualifying subsidiary wind-ups.
Partnership dissolutions and continuations	Rollover treatment may also apply when a partnership ceases to exist and its property is distributed to former members, or when one former partner continues the business subject to specified conditions.	Transfers of property to a partnership; distribution of partnership property when a partnership is wound up.

Main rollover grouping	What it covers	Examples of transactions covered
Family and intergenerational transfers	Special rules apply to certain transfers between spouses or common-law partners and to specified transfers of farm or fishing property to family members, allowing gains or recapture to be postponed in qualifying circumstances.	Transfers of capital property between spouses or common-law partners; transfers of farm or fishing property to a child, spouse or common-law partner.
Replacement property	Tax on a gain or CCA recapture can be deferred in specified circumstances when qualifying property is disposed of and replacement property is acquired.	Replacement of qualifying business real estate that is sold; replacement following theft, destruction or expropriation
Reinvestment in small-business shares	Individuals other than trusts may defer all or part of a capital gain on a qualifying disposition of eligible small business corporation shares by reinvesting proceeds in eligible replacement shares within the prescribed period.	Sale of qualifying small-business shares and reinvestment of the proceeds in newly issued shares of another eligible small-business corporation under section 44.1.

The small-business investment rollover (section 44.1) allows eligible individuals to defer capital gains by reinvesting proceeds in qualifying small-business shares, with the deferred gain preserved through a lower tax cost for the replacement shares. Introduced in 2000 to support access to capital and reinvestment, it has seen modest uptake: Finance Canada's 2024 evaluation reported 666 claimants in 2019. This figure predates the expanded eligibility and longer reinvestment window applicable from 2025.

Duration and control

The duration of the deferral can vary substantially. In some restructurings, recognition may be postponed only briefly, while spousal, estate or intergenerational rollovers can defer tax for many years or even across generations. Taxpayers may also retain some control over the timing of the eventual taxable event, and successive qualifying transactions can sometimes extend the period before the underlying gain is recognized.

Economic rationale

The economic rationale depends heavily on the transaction. Rollovers involving active businesses, replacement property or illiquid family assets can facilitate restructuring, reinvestment or succession without requiring tax to be paid when little or no cash has been realized. By contrast, rollovers involving investment assets or layered corporate structures may have a weaker liquidity rationale and create greater opportunities for tax planning. Rollovers therefore cannot be characterized uniformly as productive or passive.

Intergenerational and estate rollovers illustrate these trade-offs particularly clearly. Transfers to spouses or common-law partners and qualifying transfers of farm or

fishing property to children can preserve continuity and reduce the risk that an illiquid business or asset must be sold simply to fund tax. The accrued gain is generally carried forward rather than eliminated. At the same time, the potentially long duration of these deferrals and their concentration among asset-owning families raise broader questions about tax neutrality and intergenerational wealth transmission.

Special case - Estate freezes and discretionary trusts

An estate freeze allows an owner to retain the current value of an ownership interest while directing future growth to other shareholders. Typically, the owner exchanges existing common shares for fixed-value preferred shares, and new growth shares are issued directly to successors or to a discretionary trust. Where rollover conditions are met, the exchange can occur without immediate recognition of the existing accrued gain. Future growth accrues to the new shareholders and therefore does not increase the value of the original owner's shares subject to tax at death. Where successors hold the growth shares directly, the trust's 21-year deemed-disposition rule does not apply; an estate freeze involving a trust does not itself avoid that rule.

Where a trust holds the growth shares, the deferral may continue beyond its 21st anniversary through the general rollover rules for distributions to beneficiaries. Subject to applicable conditions and exceptions, subsection 107(2) permits property to be distributed to beneficiaries on a rollover basis before that event, preserving accrued gains for later taxation in their hands. The relevant horizon is therefore the period until the gain is ultimately recognized, rather than simply the period for which the trust holds the property.

These arrangements can support succession planning and continuity of ownership, particularly where a business has substantial value but limited cash available to fund a transfer. However, the underlying assets may support either active business activity or passive investment, so their preliminary economic alignment is mixed. Their potential to extend deferral on future growth, interaction with other tax provisions and reliance on specialized planning make them a useful Phase II priority. Further analysis could examine who benefits, how estate freezes affect intergenerational wealth transmission, and whether continuity of ownership supports continued productive investment.

Specialized international and cross-border rollover provisions also exist. These are outside the scope of this paper because the associated foreign-affiliate and international tax rules are sufficiently complex and distinct that a meaningful assessment would warrant a separate study.

Overall, rollovers are best viewed as continuity-based deferrals. Their rationale is strongest where legal ownership or organizational form changes without a genuine economic realization and where liquidity is limited. However, long deferral periods and the potential interaction of multiple rollover and preferential provisions mean that their effects can extend beyond simple transaction neutrality, making them a potentially important area for further analysis.

Summary taxonomy table

The summary compares the mechanisms assessed across their policy purpose, duration, taxpayer control, use of funds and preliminary economic alignment. The complete design, tax treatment, operation and policy characteristics appear in Annex A.

Mechanism	Policy purpose	Potential duration	Control over timing	Use of funds	Economic alignment
Lifecycle and registered-plan					
Registered Retirement Savings Plan / Income Fund	Retirement saving and income smoothing	Long – potentially decades	Medium – contribution and withdrawal timing partly controlled	Primarily passive saving	Neutral / retirement-oriented
Registered Pension Plan / Pooled RPP	Support retirement saving and income smoothing over the lifecycle	Long – potentially decades	Low–Medium – contribution and withdrawal timing often constrained, particularly for RPPs and locked-in amounts	Primarily passive saving	Neutral / retirement-oriented
Deferred Profit Sharing Plan	Encourage employer-sponsored saving and allow employees to share in business profits on a tax-deferred basis	Medium–long – potentially until retirement or termination	Low – employer determines contributions; employee generally has limited control over initial timing	Primarily passive saving	Mixed – retirement saving / employee compensation
Registered Education Savings Plan	Encourage saving for post-secondary education and support human-capital investment	Medium – often 10–25 years	Medium – contribution and investment decisions controlled by subscriber, but distributions subject to plan and education rules	Passive saving	Targeted / education-oriented
Registered Disability Savings Plan	Promote long-term financial security for persons eligible for the Disability Tax Credit, including through government grants and bonds	Long – potentially decades	Low–Medium – contributions and investments partly controlled, but withdrawals and government assistance are subject to plan rules	Passive saving	Targeted / social-policy and long-term security
Realization and multi-period recognition					
Capital gains – realization basis	Tax gains when they are realized rather than accrued; administrative and liquidity considerations	Potentially very long	High	Depends entirely on underlying asset	Neutral / mixed

Mechanism	Policy purpose	Potential duration	Control over timing	Use of funds	Economic alignment
Capital-gains reserve	Match recognition of a realized capital gain with receipt of sale proceeds and reduce liquidity pressure	Short-medium – generally up to five years; longer for certain qualifying transfers	Medium – payment terms can affect timing, but statutory limits constrain the amount and duration	Depends entirely on underlying asset	Neutral / liquidity-oriented
Entity-level and organization					
Retained earnings in CCPCs – active business	Preserve business capital for reinvestment and growth	Potentially long	High	Potentially highly active	Productive / mixed
Passive investments inside private corporations	Largely arises from corporate ownership and integration system rather than a stand-alone saving objective	Potentially long	High	Passive	Mixed / potentially leakage-prone
Corporate-owned exempt life insurance	Provide insurance protection and liquidity for succession or estate obligations	Potentially lifelong	Medium	Passive investment accumulation combined with insurance protection.	Mixed – insurance and liquidity benefits alongside preferential wealth accumulation
Accelerated cost recovery					
Accelerated CCA / depreciation	Encourage or advance investment in productive capital	Usually short-medium	Low-Medium	Active / productive	Productive-oriented
Rollover and continuity deferral					
Tax-deferred rollovers – general	Avoid tax where legal ownership changes but economic investment is considered to continue	Medium to very long	Medium-High	Depends on underlying asset	Neutral / mixed
Intergenerational / estate rollovers	Business/farm continuity, succession, avoidance of forced sale to fund tax	Very long / potentially intergenerational	Medium-High	Active or passive depending on asset	Mixed
Estate freezes	Facilitate succession and continuity of ownership	Potentially long; retained shares and growth shares have separate tax timelines	Medium-High	Depends on underlying assets	Mixed – may facilitate business succession.

How Canadian tax deferrals compare

Qualitative comparison of the mechanisms assessed. Darker shading indicates a higher level or longer duration.

Figure 1 Comparison of deferral characteristics

Mechanism	Potential duration	Taxpayer control	Liquidity rationale	Lock-in incentive	Interaction / layering	Complexity	Planning / leakage risk
LIFECYCLE AND REGISTERED PLANS							
RRSP / RRIF	Long	Medium	Low	Medium	Medium	Medium	Low-medium
RPP / PRPP	Long	Low-medium	Low	Medium	Medium	Medium-high	Low
DPSP	Medium-long	Low	Low	Medium	Low-medium	Low	Low-medium
RESP	Medium	Medium	Low	Low-medium	High	Medium	Low-medium
RDSP	Long	Low-medium	Low	Medium-high	Very high	High	Low-medium
REALIZATION AND MULTI-PERIOD RECOGNITION							
Capital gains: realization	Very long	High	High	High	High	Medium-high	Medium-high
Capital-gains reserve	Short-medium	Medium	High	Low	Low-medium	Medium	Low-medium
ENTITY-LEVEL AND ORGANIZATIONAL DEFERRAL							
CCPC retained earnings: active business	Potentially long	High	Medium-high	Low	High	High	Medium
Passive corporate investments	Potentially long	High	Low	Medium	Very high	High	High
Corporate-owned exempt life insurance	Very long	Medium	Medium-high	Medium-high	High	High	Medium-high
ACCELERATED COST RECOVERY							
Accelerated CCA	Short-medium	Low-medium	Medium	Low	Medium	Low	Low-medium
ROLLOVERS AND CONTINUITY							
General rollovers	Medium to very long	Medium-high	Medium	Medium	Very high	Medium-high	Medium-high
Intergenerational / estate rollovers	Very long	Medium-high	High	Medium-high	High	High	Medium-high
Estate freezes	Very long	Medium-high	Medium-high	Medium-high	Very high	High	Medium-high

Purple: duration. Teal: other characteristics. Read the labels for the qualitative assessment.

Taxpayer control and duration

Two characteristics are particularly useful for distinguishing among tax deferrals: how long the deferral can last and how much control the taxpayer has over when it ends. These dimensions are related, but they are not the same. Some mechanisms can provide long deferrals while leaving relatively little discretion over the ultimate timing of taxation. Registered retirement plans, for example, can defer tax for decades, but contribution limits and mandatory RRIF withdrawal rules constrain taxpayer control. Accelerated CCA is generally shorter in duration and, once the investment is made, its timing is largely determined by the applicable tax rules. At the other end of the spectrum, realization-based capital gains can remain deferred for very long periods and taxpayers often have substantial influence over when the taxable disposition occurs. Retained earnings in private corporations can similarly provide a potentially long deferral because shareholders generally have significant control over the timing of distributions.

The figure below illustrates this relationship across several of the mechanisms examined in the taxonomy. Mechanisms located toward the upper-right of the figure combine potentially long duration with relatively high taxpayer control, characteristics that may increase both the present-value benefit of the deferral and the importance of understanding how and when the deferred tax is eventually recognized. Intergenerational rollovers can also extend recognition for long periods, while successive qualifying transactions may further postpone the taxable event. General rollover provisions are more heterogeneous, with their duration and degree of taxpayer control depending on the particular transaction. The figure should therefore be interpreted as a qualitative summary of the taxonomy rather than a quantitative ranking. Its purpose is to show that the economic significance of a deferral depends not simply on whether tax is postponed, but also on the combination of its potential duration and the taxpayer's ability to influence that duration.

Potential duration and taxpayer control

Qualitative illustration; positions do not represent measured scores



In closing

Tax deferral is not a single policy instrument. It appears in the Income Tax Act for a variety of reasons, some of them linked to equity, economic purposes, or savings. Indeed, from this summary review of deferral mechanisms, we see that they operate through different economic mechanisms, lifecycle saving, realization, entity-level taxation, accelerated deductions or continuity/rollover rules.

As such, their significance cannot be assessed simply by asking how much tax is postponed. Other relevant characteristics include what they support in terms of economic activity, productivity, and ultimately how they support and promote savings.

The main distinctions emerging from the taxonomy

Here are four (4) contrasts that emerged from the review:

1) Policy rationale matters.

Some deferrals have a relatively direct rationale: retirement saving and income smoothing, business investment, liquidity, or continuity where an economic investment has not really been realized. Others arise more structurally from the way income or gains are taxed.

2) Duration and taxpayer control vary enormously.

An accelerated deduction can reverse relatively quickly, while unrealized capital gains, retained corporate earnings or certain rollovers can persist for many years. The ability of taxpayers themselves to determine when taxation occurs also differs substantially.

3) How the capital under deferral is ultimately used is important.

One of the most important economic distinctions among tax deferrals is how the capital made available by the deferral is ultimately used. Capital that remains available to finance machinery, business expansion, working capital or replacement property has a different economic role from capital that accumulates in a passive investment portfolio. The tax benefit may arise from the same basic mechanism, the postponement of tax, but the resulting economic effects can be very different depending on where the deferred capital is deployed.

4) Interactions matter.

One mechanism considered alone may appear fairly straightforward, but the outcome may change where realization rules, corporate retention, rollovers or other timing rules are layered together. For this reason, a more in-depth analysis of tax deferrals should consider not only individual mechanisms, but also the extent to which they can be layered or interact across the tax system.

Building on this taxonomy, Phase II would focus on selected mechanisms with long deferral periods, substantial taxpayer control, significant interactions with other provisions, or uncertain economic effects. It would assess their economic value, distribution and policy effects through a tax-simplification lens.

For each measure, the analysis would compare the timing and amount of tax payments with an appropriate benchmark without the deferral. It would consider how much tax is postponed, for how long, the financial benefit of retaining funds during that period, and any differences in applicable tax rates. Where a measure produces tax payments or savings across several years, the assessment would consider their combined effect over time.

For corporate income, particular attention would be given to the gap between corporate and personal tax rates and how it influences retention, distribution and investment decisions. Two potentially complementary reform routes would be examined: broadening the tax base and strengthening rules that limit deferral, and narrowing relevant rate differences while improving corporate–personal tax integration. Both would be assessed for their effects on revenue, productive investment, liquidity, compliance costs and opportunities for tax planning. Distribution would remain central, including who benefits from existing deferrals and who would gain or lose under alternative reforms. The objective would be to identify options that simplify the system while preserving justified timing relief and weighing investment incentives against revenue and fairness.

ANNEX A – Deferrals Taxonomy tables

Table A1 Purpose and coverage

Deferral mechanism	Category	Policy purpose / rationale	Main taxpayer group	Asset / activity
Lifecycle and registered-plan				
Registered Retirement Savings Plan / Income Fund	Household / retirement	Retirement saving and income smoothing	Individuals with contribution room	Pension and retirement investments
Registered Pension Plan / Pooled RPP	Employment / retirement	Support retirement saving and income smoothing over the lifecycle	Employees and pension-plan members; individuals and self-employed, subject to applicable federal or provincial PRPP legislation.	Pension and retirement investments
Deferred Profit Sharing Plan	Employment / profit-sharing	Encourage employer-sponsored saving and allow employees to share in business profits on a tax-deferred basis	Employees of participating employers	Employer contributions and financial investments
Registered Education Savings Plan	Household / education	Encourage saving for post-secondary education and support human-capital investment	Families / subscribers saving for beneficiaries	Financial investments for education
Registered Disability Savings Plan	Household / disability and long-term security	Promote long-term financial security for persons eligible for the Disability Tax Credit, including through government grants and bonds	DTC-eligible persons and their families	Financial investments / long-term disability savings
Realization and multi-period recognition				
Capital gains – realization basis	Capital gains / realization	Tax gains when they are realized rather than accrued; administrative and liquidity considerations	Individuals, corporations	Capital property
Capital-gains reserve	Capital gains / multi-period recognition	Match recognition of a realized capital gain with receipt of sale proceeds and reduce liquidity pressure	Individuals, corporations disposing of eligible capital property	Capital property sold with proceeds receivable over more than one taxation year
Entity-level and organization				
Retained earnings in CCPCs – active business	Business reinvestment	Preserve business capital for reinvestment and growth	Incorporated business owners	Active business assets / working capital
Passive investments inside private corporations	Passive accumulation	Largely arises from corporate ownership and integration system rather than a stand-alone saving objective	Private corporation shareholders	Securities, real estate and other passive assets

Deferral mechanism	Category	Policy purpose / rationale	Main taxpayer group	Asset / activity
Corporate-owned exempt life insurance	Insurance-based accumulation with potential exemption	Provide insurance protection and liquidity for succession or estate obligations	Private corporations and their shareholders	Exempt life insurance policies with an accumulation component
Accelerated cost recovery				
Accelerated CCA / depreciation	Business investment	Encourage or advance investment in productive capital	Businesses	Machinery, equipment and other depreciable capital
Rollover and continuity deferral				
Tax-deferred rollovers – general	Rollover / restructuring	Avoid tax where legal ownership changes but economic investment is considered to continue	Individuals and corporations	Businesses, shares, property
Intergenerational / estate rollovers	Rollover / estate	Business/farm continuity, succession, avoidance of forced sale to fund tax	Families, estates, business owners	Farms, businesses and qualifying property
Estate freezes	Share reorganization and succession planning	Facilitate succession and continuity of ownership	Owners of private corporations and their successors	Shares of corporations holding active business assets or passive investments

Table A2 Tax treatment and timing

Deferral mechanism	Nature of tax treatment	When deferral begins	Tax trigger / end	Potential duration	Is tax ultimately recovered?
Lifecycle and registered-plan					
Registered Retirement Savings Plan / Income Fund	Deduction upfront + tax-deferred investment income; withdrawals taxable	Contribution	Withdrawal / RRIF payment	Long — potentially decades	Generally yes, on withdrawal; rate may differ from contribution years
Registered Pension Plan / Pooled RPP	Contributions receive favourable upfront tax treatment + tax deferred investment income; pension or plan benefits generally taxable when received	Contribution	Pension benefit, withdrawal or other taxable payment	Long — potentially decades	Generally yes, when benefits are paid; effective tax rate may differ from contribution years
Deferred Profit Sharing Plan	Employer contributions are not taxed to the employee + tax deferred investment income; taxable when paid to employee	Employer contribution / profit allocation to plan	Withdrawal, termination payment or other distribution	Medium–long — potentially until retirement or termination	Generally yes when amounts are distributed, although timing and tax rate may differ
Registered Education Savings Plan	Contributions are not deductible; investment income and government incentives are taxable to the beneficiary when withdrawn	When government incentives are paid into the plan and investment income begins accruing tax-free within the plan	Educational assistance payment to beneficiary or other taxable distribution of accumulated income	Medium — often 10–25 years	Tax applies to taxable educational assistance payments, including investment earnings and government incentives
Registered Disability Savings Plan	Contributions are not deductible; investment earnings, grants and bonds are taxable to the beneficiary when withdrawn	When government incentives are paid into the plan and investment income begins accruing tax-free within the plan	Disability assistance payment / lifetime disability assistance payment	Long — potentially decades	Tax applies to the taxable portion of withdrawals, including grants, bonds and investment earnings
Realization and multi-period recognition					
Capital gains — realization basis	Accrued gain not taxed until realization	Asset appreciates	Disposition / deemed disposition	Potentially very long	Generally yes at realization, unless another provision eliminates or extends taxation
Capital-gains reserve	Portion of realized capital gain may be deferred and brought into income over later taxation years, subject to statutory limits	Disposition of eligible capital property where part of the proceeds is not yet receivable	Gain is progressively recognized as the reserve is reduced; full recognition by the end of the permitted reserve period	Short–medium — generally up to five years; longer for certain qualifying transfers	Yes — deferred gain is generally recognized over the permitted reserve period

Deferral mechanism	Nature of tax treatment	When deferral begins	Tax trigger / end	Potential duration	Is tax ultimately recovered?
Entity-level and organization					
Retained earnings in CCPCs – active business	Corporate tax paid initially; personal tax delayed until distribution	Business income retained rather than distributed	Dividend or other distribution	Potentially long	Generally, but timing and ultimate rate depend on later distribution and integration
Passive investments inside private corporations	Personal-level taxation may be delayed while capital remains corporate	Retained corporate funds invested passively	Distribution and/or disposition depending on mechanism	Potentially long	Generally intended to be substantially recovered, but outcome depends on rules and taxpayer circumstances
Corporate-owned exempt life insurance	Policy growth is not taxed annually to the policyholder; qualifying death proceeds can support tax-free capital dividends	As value accumulates within an exempt policy	Surrender, withdrawal or other taxable policy event may trigger a gain; death generally results in an exempt benefit	Potentially lifelong	Not necessarily; taxable policy gains may arise during life, while qualifying death proceeds and capital dividends can be permanently exempt
Accelerated cost recovery					
Accelerated CCA / depreciation	Deductions occur earlier than economic depreciation / ordinary schedule	Eligible capital investment	Reduced deductions later and potentially recapture	Usually short–medium	Often substantially recovered through timing effects, although present-value benefit remains
Rollover and continuity deferral					
Tax-deferred rollovers – general	Recognition of accrued gain postponed	Qualifying transfer or reorganization	Subsequent taxable disposition	Medium to very long	Usually intended to be recovered later
Intergenerational / estate rollovers	Recognition of accrued gains postponed on qualifying transfer	Transfer to qualifying successor	Later disposition / deemed disposition	Very long / potentially intergenerational	Intended eventually, but deferral can extend substantially
Estate freezes	Qualifying exchange carries existing accrued gains into fixed-value shares; future growth accrues to new shareholders directly or through a trust	Existing deferral continues through the qualifying exchange; subsequent growth accrues to new shareholders	Taxable disposition or death of the relevant shareholder; trust deemed-disposition rules where applicable; further rollovers may postpone recognition	Potentially long; retained shares and growth shares have separate tax timelines	Generally, unless other relief applies; the freeze itself does not eliminate accrued gains

Table B1 Control and deployment

The ratings in the taxonomy are qualitative comparative assessments rather than quantitative scores. They are intended to support comparison across mechanisms and identify areas for further research; they should not be interpreted as empirical estimates of economic effects, fiscal cost, how many taxpayer benefits, or taxpayer behaviour.

Deferral mechanism	Taxpayer control over timing	Active vs. passive	Domestic vs. foreign deployment	Liquidity rationale	Lock-in incentive
Lifecycle and registered-plan					
Registered Retirement Savings Plan / Income Fund	Medium — contribution and withdrawal timing partly controlled	Primarily passive saving	Canadian or foreign	Low	Medium
Registered Pension Plan / Pooled RPP	Low–Medium — contribution and withdrawal timing often constrained, particularly for RPPs and locked-in amounts	Primarily passive saving	Canadian or foreign investments	Low	Medium
Deferred Profit Sharing Plan	Low — employer determines contributions; employee generally has limited control over initial timing	Primarily passive saving	Canadian or foreign investments within permitted plan structures	Low	Medium
Registered Education Savings Plan	Medium — contribution and investment decisions controlled by subscriber, but distributions subject to plan and education rules	Passive saving	Canadian or foreign investments within permitted plan structures	Low	Low–Medium
Registered Disability Savings Plan	Low–Medium — contributions and investments partly controlled, but withdrawals and government assistance are subject to plan rules	Passive saving	Canadian or foreign investments within permitted plan structures	Low	Medium–High
Realization and multi-period recognition					
Capital gains — realization basis	High	Depends entirely on underlying asset	Canadian or foreign	High where no cash realization has occurred	High

Deferral mechanism	Taxpayer control over timing	Active vs. passive	Domestic vs. foreign deployment	Liquidity rationale	Lock-in incentive
Capital-gains reserve	Medium — payment terms can affect timing, but statutory limits constrain the amount and duration	Depends entirely on underlying asset	Canadian or foreign	High — directly addresses where tax could arise before proceeds are fully received	Low — asset has already been disposed of
Entity-level and organization					
Retained earnings in CCPCs — active business	High	Potentially highly active	Primarily Canadian business	Medium–High	Low
Passive investments inside private corporations	High	Passive	Canadian or foreign	Low	Medium
Corporate-owned exempt life insurance	Medium	Passive investment accumulation combined with insurance protection.	Depends on insurer investment allocation; no direct domestic-deployment condition for the policyholder	Medium–High for death-related obligations; weaker as a rationale for investment accumulation	Medium–High — surrender may trigger tax and contractual costs
Accelerated cost recovery					
Accelerated CCA / depreciation	Low–Medium	Active / productive	Generally tied to business investment in Canada	Medium	Low
Rollover and continuity deferral					
Tax-deferred rollovers — general	Medium–High	Depends on underlying asset	Usually follows underlying investment	Medium	Medium
Intergenerational / estate rollovers	Medium–High	Active or passive depending on asset	Primarily domestic	High in illiquid businesses/farms	Medium
Estate freezes	Medium–High	Depends on underlying assets	Follows the corporation's underlying activities and investments	Medium–High for illiquid businesses	Medium — realization-based taxation can discourage disposition

Table B2 Interactions and assessment

Deferral mechanism	Interaction / layering	Distribution / accessibility	Complexity	Planning / leakage risk	Preliminary economic alignment	Evidence / Phase II priority
Lifecycle and registered-plan						
Registered Retirement Savings Plan / Income Fund	Medium - Can interact with pensions, OAS/GIS and other retirement provisions	Access rises strongly with income and ability to save	Medium	Low–Medium	Neutral / retirement-oriented	Evidence relatively strong; probably lower Phase II priority
Registered Pension Plan / Pooled RPP	Medium — interacts with RRSP contribution room, OAS/GIS and other income tested tax provisions	Access depends significantly on employment and pension coverage; PRPPs may broaden access	Medium–High	Low	Neutral / retirement-oriented	Evidence strong; probably lower Phase II priority
Deferred Profit Sharing Plan	Medium — interacts with RRSP contribution room, OAS/GIS and other income tested tax provisions	Limited to employees whose employers establish a DPSP;	Medium	Low–Medium	Mixed — retirement saving / employee compensation	Lower–Medium Phase II priority;
Registered Education Savings Plan	High — interacts with CESG, Canada Learning Bond, provincial incentives, and certain RDSP rollovers	Broad eligibility, but ability to contribute varies with household resources; grants and bonds partly address accessibility	Medium	Low–Medium	Targeted / education-oriented	Evidence relatively strong; medium Phase II interest, particularly distributional effects
Registered Disability Savings Plan	Very high — interacts with DTC eligibility, Canada Disability Savings Grant/Bond, provincial programs	Highly targeted; access depends on DTC eligibility, while bonds provide additional support for lower-income beneficiaries	High	Low–Medium	Targeted / social-policy and long-term security	Medium–High Phase II interest, particularly accessibility, distribution and interaction with DTC
Realization and multi-period recognition						
Capital gains — realization basis	High — interacts with rollovers, exemptions, corporate ownership and estate rules	Benefits increase with ownership of appreciating assets	Medium–High	Medium–High	Neutral / mixed	High Phase II priority, particularly lock-in and wealth accumulation
Capital-gains reserve	Medium — can interact with capital-gains rules and provisions	Benefits taxpayers who dispose of eligible property on deferred-payment terms; access depends on transaction structure and eligibility	Medium	Low–Medium — some scope to influence payment structure, but statutory limits constrain deferral	Neutral / liquidity-oriented	Evidence relatively strong on mechanics; lower–medium Phase II priority

Deferral mechanism	Interaction / layering	Distribution / accessibility	Complexity	Planning / leakage risk	Preliminary economic alignment	Evidence / Phase II priority
Entity-level and organization						
Retained earnings in CCPCs – active business	High – interacts with dividend taxation, capital gains, passive investment and integration rules	Concentrated among incorporated business owners	High	Medium	Productive / mixed	High Phase II interest – key productive-vs-passive question
Passive investments inside private corporations	Very high – interacts with retained earnings, refundable taxes, dividends and capital gains	Highly concentrated among corporate owners	High	High	Mixed / potentially leakage-prone	High Phase II interest – key productive-vs-passive question
Corporate-owned exempt life insurance	High – interacts with retained earnings, policy borrowing, estate planning and the capital dividend account	Private corporations with funds for premiums; access also depends on insurability	High	Medium–High – potential to combine preferential accumulation with permanent exemption	Mixed – insurance and liquidity benefits alongside preferential wealth accumulation	Potential priority – establish scale and distribution; separate insurance, deferral and exemption effects
Accelerated cost recovery						
Accelerated CCA / depreciation	Medium – interacts with other investment credits/deductions	Depends on which firms are able to invest	Medium	Low–Medium	Productive-oriented	Medium–High; useful comparator for explicitly investment-oriented deferrals
Rollover and continuity deferral						
Tax-deferred rollovers – general	Very high – rollovers can be chained with other provisions	Depends heavily on type of rollover	High	Medium–High	Neutral / mixed	Medium–High; important for mapping interactions
Intergenerational / estate rollovers	High – interacts with Capital gains exemption, estate rules and corporate structures	Concentrated among asset-owning families	High	Medium–High	Mixed	High if intergenerational wealth becomes a research focus
Estate freezes	High – interacts with capital-gains taxation, trusts, spousal rollovers and exemptions	Primarily owners of appreciating corporate assets with access to specialized advice	High	Medium–High	Mixed – may facilitate business succession.	High – examine duration, access, wealth transmission and productive investment outcomes

ANNEX B - Lexicon of key terms and concepts

The following definitions explain how key terms are used in this paper. They support the economic analysis and do not replace statutory definitions.

Term or concept	Meaning in this paper
Tax deferral	Postponement of taxation relative to a benchmark treatment, with tax generally expected to arise later. It may result from delayed recognition of income or gains, earlier deductions, or postponed taxation.
Policy rationale	The reason for a mechanism's existence, such as retirement saving, business investment, liquidity or continuity of investment. Some deferrals arise from the structure of the tax system rather than an explicit incentive or policy purpose.
Taxpayer control over timing	The extent to which a taxpayer can influence when a deferral begins or ends, within the applicable rules.
Liquidity	The availability of cash, or assets readily convertible into cash, to meet financial obligations. A liquidity rationale for deferral arises where tax would otherwise be payable before sufficient cash becomes available.
Lock-in effect	An incentive to retain an asset or keep funds in an arrangement because selling or withdrawing would trigger tax. This may discourage an otherwise attractive reallocation of capital.
Interactions and layering	Interactions occur when one tax provision affects another's operation or outcome. Layering involves using several provisions together or in sequence, potentially extending a deferral or changing its eventual tax treatment.
Policy leakage	A situation where a tax benefit persists or is redirected in ways materially disconnected from its intended policy rationale. It does not necessarily involve unlawful conduct.
Active business investment	Capital used directly in business operations, such as machinery, equipment, expansion or working capital.
Passive investment	Assets held to earn investment income or gains rather than used directly in the holder's active business. Such investments may still finance economic activity elsewhere.
Neutral saving or timing	The paper's classification for mechanisms that primarily address timing, liquidity or lifecycle needs without directing capital toward a particular activity. "Neutral" does not mean that they have no effect on behaviour.
Present value	The value today of a future payment, calculated using a discount rate. Paying tax later generally lowers its present-value cost, even when the same nominal amount is eventually paid.

Term or concept	Meaning in this paper
Realization and recognition	Realization concerns the event through which a gain is crystallized, generally a disposition. Recognition concerns when income or a gain is taken into account for tax purposes. These may occur at different times.
Expensing and accelerated cost recovery	Expensing allows an eligible capital cost to be deducted in full upfront. More broadly, accelerated cost recovery brings deductions forward relative to a benchmark schedule, generally leaving fewer deductions available later.
Tax-deferred rollover	A qualifying transfer or reorganization that postpones recognition of a gain or recapture. The deferred amount is generally preserved through the tax cost of property or ownership interests for taxation at a later event.

ANNEX C - Selected statutory references for rollovers and related continuity provisions

Mechanism	Income Tax Act provisions	Short description
Transfers to a corporation	s. 85	Allows eligible property to be transferred to a Canadian corporation for consideration including shares, with a joint election permitting tax to be deferred.
Share exchanges and capital reorganizations	ss. 51, 85.1 and 86	Allow qualifying conversions of securities, exchanges of shares in one corporation for shares in another, and reorganizations of a corporation's share capital without immediately recognizing some or all accrued gains.
Corporate amalgamations and windings-up	s. 87; subs. 88(1)	Provide tax continuity on qualifying amalgamations or when a qualifying subsidiary is wound up into its parent, generally allowing assets to move without immediate taxation of accrued gains.
Transfers to and dissolution of partnerships	subs. 97(2) and 98(3)	Permit elective tax-deferred transfers of eligible property to a Canadian partnership and qualifying distributions on dissolution where former partners receive proportionate undivided interests in each property.
Replacement property	s. 44; subs. 13(4)	Allow capital gains and CCA recapture on certain dispositions to be deferred when qualifying replacement property is acquired within the required period.
Reinvestment in small-business shares	s. 44.1	Allows eligible individuals to defer qualifying capital gains on small-business shares by reinvesting proceeds in qualifying replacement shares.
Lifetime transfers to spouses and certain trusts	subs. 73(1)–(1.02)	Generally permit capital property to be transferred at its tax value to a spouse, common-law partner or qualifying trust, including certain spousal, alter ego and joint spousal trusts.
Distributions from personal trusts to beneficiaries	subs. 107(2), subject to applicable exceptions	Permits qualifying distributions of trust property to beneficiaries on a rollover basis, generally preserving accrued gains for recognition at a later taxable event.

Mechanism	Income Tax Act provisions	Short description
Transfers to a spouse or spousal trust at death	subs. 70(6)	Generally defers tax otherwise triggered at death when capital property passes to a qualifying spouse, common-law partner or spousal trust.
Intergenerational farm or fishing transfers	subs. 73(3)–(4.1) and 70(9)–(9.31)	Permit qualifying transfers of farm or fishing property, corporation shares and partnership interests to children on a tax-deferred basis, during life or following death, including certain transfers through a spousal trust.
Change-of-use elections	subs. 45(2)–(4)	Allow taxpayers to elect out of the deemed disposition otherwise arising from certain changes between personal and income-producing use, including conversion of an income-producing property into a principal residence.
Qualifying intergenerational business transfers	para. 84.1(2)(e); subs. 84.1(2.3)–(2.32); subpara. 40(1)(a)(iii); subs. 40(1.2)	Provide conditions under which qualifying transfers receive capital-gains rather than deemed-dividend treatment, together with access to an extended capital-gains reserve; these are related transfer rules rather than a general rollover.
Transfers to employee ownership trusts	subs. 40(1.3)	Allows an extended capital-gains reserve for qualifying business transfers to employee ownership trusts, spreading recognition of the gain over up to ten years rather than providing a rollover.

Note: These are selected statutory references, not an exhaustive inventory. Eligibility conditions, election requirements and limits vary by provision. A rollover generally preserves deferred tax consequences rather than eliminating them.

Source: Income Tax Act, R.S.C. 1985, c. 1 (5th Supp.), provisions identified above.

End Notes

- i [Statistics Canada: Employer pension plans, fourth quarter 2025](#)
[Statistics Canada: Pension Satellite Account 2022](#)
[Canada Revenue Agency: T1 statistics, 2024 tax year](#)
- ii [Canada Revenue Agency: How the flow-through share program works](#)
- iii [Department of Finance Canada: Report on Federal Tax Expenditures 2026](#)
- iv [Canada Revenue Agency: T4037 Capital Gains](#)
[Review of taxation of capital gains \(1980\)](#)
- v [Canada Revenue Agency: Claiming a capital gains reserve](#)
- vi [Department of Finance Canada: Tax Planning Using Private Corporations \(2017\)](#)
- vii [Canada Revenue Agency: T2 Corporation Income Tax Guide, chapter 4](#)
- viii [Department of Finance Canada: Report on Federal Tax Expenditures 2026, annex](#)
- ix [Canada Revenue Agency: Transfers of capital property](#)
[Canada Revenue Agency: Share for share exchange](#)
[Canada Revenue Agency: Income Tax Audit Manual, partnerships](#)
[Canada Revenue Agency: Replacement property](#)

For selected provisions of the Income Tax Act governing rollovers and related continuity measures, see Annex C. Eligibility conditions and election requirements vary by provision.