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When it May Pay to Defer Deductions

During tax season, most taxpayers are eager to maximize deductions to minimize taxes. But careful attention to tax planning may mean doing the opposite. In some situations, it may actually make sense to defer making these deductions until a later time. Here are some reasons why:

Registered Retirement Savings Plan (RRSP) Contributions — There may be situations in which delaying your RRSP deduction may make sense. If you expect that you will be in a higher tax bracket in the future years, you may make an RRSP contribution up to your limit (plus the $2,000 over-contribution limit, if not previously used) but not take the RRSP deduction in the year of contribution and, instead, carry that amount (or a portion of it) forward. Or, you can consider deferring contributions until the year when you anticipate being in the higher tax bracket to maximize the taxes saved. Unused RRSP tax deductions can be carried forward indefinitely.

Charitable Donations — Donations do not have to be claimed in the year they are made and can instead be carried forward and claimed on a tax return for the next five years.

Remember that the tax credit associated with donations to a qualifying Canadian charity has two tiers: on the first $200 of contributions there is a 15 percent federal tax credit and any amounts above $200 generate a 29 percent tax credit. There are also provincial tax credits.

If you expect to make smaller donations over different years, it may be beneficial to delay your claim and combine those donations together in one year to maximize the amount that generates the higher tax credit. As well, spouses may be able to claim each other's unused charitable donation carry-forwards from previous years to maximize the tax credit.

Medical Expenses — Certain medical expenses over a threshold may be eligible for a federal refundable tax credit. There are also provincial tax credits available. The expense does not need to be based on the calendar year and can be claimed in any 12-month period ending in the tax year you're filing for. Therefore, you may wish to defer a claim if it will be more beneficial in the 12-month period ending the following tax year.

Education Tax Credits — If a student does not use their tuition, education and text book tax credits because they have no offsetting income, the credits can be transferred to a spouse or common-law partner, parent or grandparent (to a maximum of $5,000, less any amount used by the student). Students can also carry forward indefinitely these credits but cannot transfer carry-forward credits and must claim them in the first year that federal tax is owed.

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