Tax carryforwards and carrybacks checklist

Canadian tax rules allow you to carry forward or carry back certain tax credits and deductions that you do not use in one year to another year. This may reduce your tax payable or help you to take advantage of government benefits in another year.

This article may outline strategies, not all of which will apply to your particular circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and/or legal advisor before acting on any of the information in this article.

Please contact us for more information about the topics discussed in this article.

Some of the most common items that may be carried forward or back for federal tax purposes are:

- Unused RRSP deduction room can be carried forward indefinitely. However, you cannot have an RRSP after the year you turn age 71. You can make a last contribution to your own RRSP in the year you turn 71 or you can continue to make spousal RRSP contributions to a younger spouse's RRSP as long as you have RRSP deduction room. You may also contribute the full amount of your RRSP contribution limit in one year to maximize tax-deferred growth of your investments but choose a future year to deduct your RRSP contribution to maximize your tax savings.

- A capital loss must be used to reduce any realized capital gains in the year they are incurred. Any capital losses in excess of the capital gains realized in a given year are known as net capital losses. Net capital losses can be carried forward indefinitely to offset future taxable capital gains or carried back three taxation years to offset previous taxable capital gains. Note that any net capital losses remaining in the year of death (reduced by any capital gains exemption ever claimed) can be used to offset any other income in the year of death and the year immediately preceding the year of death.

- Unused charitable donations can be carried forward for five taxation years (or for ten years for a gift of ecologically sensitive land made after February 10, 2014). This allows you to accumulate smaller donations for five years and take

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advantage of the higher tax credit for donations above $200. Also, you may combine charitable donations made by you and your spouse on one return to maximize the donation tax credit.

- Unused non-capital losses you realize after 2005 can generally be carried forward for twenty taxation years or carried back three taxation years. However, this does not apply to a non-capital loss resulting from an Allowable Business Investment Loss (ABIL). Instead, a non-capital loss resulting from an ABIL arising in tax years ending after March 22, 2004, that has not been used within 10 tax years will become a net capital loss in the eleventh year and can be carried forward indefinitely.

- Unused Canadian Exploration Expenses (CEE) go into a pool called cumulative CEE (CCEE). You can deduct up to 100% of the CCEE pool in future years until they are fully used.

- Unused Canadian Development Expenses (CDE) go into a pool called Cumulative CDE (CCDE). You can deduct up to 30% of the CCDE pool in future years until they are fully used.

- Unused Investment Tax Credits (ITC), which you may be eligible for if you invest in a flow–through, can be carried back three taxation years. Credits earned in tax years that end after 1997 can be carried forward up to 20 taxation years.

- Alternative Minimum Tax (AMT) paid in one taxation year can be used over the next seven years to reduce the portion of your regular federal tax liability that is over the AMT amount calculated for that future year, until it is used up. There is no carryback permitted to prior years.

- If you are the holder of an RDSP and contributed less than the maximum amount, you may be able to claim Grant and Bond entitlements from the past 10 years (but no earlier than 2008). Grants and Bonds will be paid on unused entitlements, up to an annual maximum. To apply for the unused Grant and Bond entitlements, the beneficiary must qualify to receive the Grant and the Bond in those missed years. You can apply until the end of the year the beneficiary turns 49.

- Unused Canada Education Savings Grant (CESG) entitlements can be carried forward and claimed in future years when Registered Education Savings Plan (RESP) contributions in excess of $2,500 are made provided certain criteria are met. The maximum CESG that is paid in any year is $1,000 based on a contribution of $5,000.

- Unused tuition tax credits in a particular year can be carried forward indefinitely by the student. The carry forward amount must be used in the earliest year the student has taxable income. Unused tax credits that are carried forward to a future year may not subsequently be transferred to a spouse or common-law partner, a parent or grandparent. Effective for 2017 and future years, the education and textbook credits will be eliminated. However, unused education and textbook credits from prior years will remain available to be carried forward and claimed in future years by the student.

- Interest paid on qualified student loans can be claimed as a tax credit only by the student. If this tax credit cannot be utilized in the year the interest is paid then the interest paid can be carried forward for five taxation years. Only interest paid on loans received under the Canada Student Loans Act, the Canada Student Financial Assistance Act, the Apprentice

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Loans Act or a similar provincial or territorial government laws qualify for this tax credit. The credit cannot be transferred to another individual.

- Unused TFSA contribution room can be carried forward indefinitely. The TFSA annual contribution limit is not pro-rated in the year of emigration, immigration or the year you turn 18. This means that you accumulate the entire year's contribution room in these cases.
- Unused eligible moving expenses can be carried forward and deducted from employment, self-employment, or award income earned at the new location until exhausted.

Some tax related amounts that **cannot** be carried forward are:

- Labour sponsored fund tax credits must generally be used in the year you purchase the fund. Credits from labour sponsored funds purchased in the first sixty days of the year can be claimed in the previous tax year or the current tax year.
- Foreign tax credits related to foreign non-business income (e.g. investment income) must be claimed in the year in which the foreign tax was paid.
- Medical expenses cannot be carried forward. However, you may claim eligible expenses paid in any 12-month period ending in the taxation year as long as it was not already claimed in a previous year.

If any of the circumstances for tax carry forwards or carry backs apply to you, speak to a qualified tax advisor for more details on how to execute your claim.

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