

DID YOU KNOW?

(A publication for the clients and contacts of Gary S. Aslett, Chartered Accountant)

PERSONAL TAX INSTALMENTS – Non-payment can be costly

Many individuals receive income from which no tax or not enough tax is withheld which may result in tax owing when they file their personal tax returns. This income may include rental, investment, self-employment, pension or other income. Depending on the amount of tax owing each year, you may have to pay income tax by instalments.

Who has to pay tax by instalments?

Instalments may be required in 2002 if:

- The net tax owing when you file your 2002 income tax return (ignoring instalments paid in the year) is more than \$2,000.00; AND
- In either 2001 or 2000, the net tax owing (ignoring instalments paid in that year) when you filed your income tax return was more than \$2,000.00.

What are the instalment due dates:

Instalments payments are due four times a year:

- March 15
- June 15
- September 15
- December 15

How are instalments calculated?

There are 3 options to calculate the instalments to be paid:

1. No-calculation option: Canada Customs & Revenue Agency (“CCRA”), formerly known as Revenue Canada, will advise you of the instalment due in their reminders mailed to you twice a year.
 - The March and June payments are calculated as $\frac{1}{4}$ of the net tax owing in the 2nd preceding year (year 2000) (ignoring instalments paid in that year). CCRA uses your 2000 net tax owing for the March and June instalments as they have not processed your 2001 tax return before the March instalment is due.
 - The September and December payments are calculated as follows: Net tax owing for 2001 (ignoring instalments paid in that year) less the amounts in the March and June instalment reminder explained above. $\frac{1}{2}$ of this amount is due in September, the other $\frac{1}{2}$ in December.

- CCRA sends their instalment reminders two times per year, one early in the year for the March and June payment, then a second instalment form later in the year for the September and December payment.
2. Current-year option: Individuals can calculate their own instalment payment amounts by estimating their net tax owing for the current year and paying $\frac{1}{4}$ of this amount on each of the four dates.
 3. Prior-year option: Individuals can pay four instalments equal to $\frac{1}{4}$ of the net tax owing for 2001.

CCRA has a worksheet *Form T1033-WS, Worksheet for Calculating Instalment Payments* to assist you with your calculations.

You do not have to advise CCRA which option you wish to use. Regardless of the amount you pay, CCRA will continue to send you reminders as explained in option 1 above.

Appropriate planning would suggest paying the least amount of instalments possible while at the same time avoiding non-deductible interest and penalty charges assessed for insufficient instalments paid. Those individuals with expected lower net tax owing in 2002 than in 2001 should consider using option 2 to calculate instalments. However, it is important that your estimates are realistic. If you follow option 2 on the assumption that your 2002 income will be lower than in 2001 and you later determine that you underestimated your 2002 income, interest will be charged for deficient instalments. This situation is common for individuals with fluctuating income from unpredictable capital gains.

What is the cost of not paying instalments?

CCRA's rate of interest on deficient instalments is set quarterly. The rate for the 1st quarter of 2002 is 9%. The rate has been set for the 2nd quarter of 2002 at 8%. If the interest charges are more than \$1,000.00, penalties may also be charged.

Remember that any interest and penalties paid to CCRA for these deficient instalments are not tax deductible.

If you realize during 2002 that you paid less than your required instalment payment, or that you did not pay it on time, you can reduce or eliminate an instalment interest charge by overpaying your next instalment or by paying your next instalment early.

You may consider reducing your net tax owing each year by requesting to have tax withheld from certain types of income such as Old Age Security or Canada Pension Plan payments.

How can individuals make their instalment payments?

Instalments can be paid free of charge at most financial institutions, a cheque can be mailed to CCRA, you may be able to pay through your bank's telephone or internet banking services, or you can set up a pre-authorized payment plan and have instalments automatically deducted from your bank account.

Did You Know – Paying Your Personal Tax Instalments, continued

This information is based on existing legislation and administrative practice or legislation that is expected to be passed into law. Such legislation is subject to change without notice. Readers are advised to obtain specific professional advice before acting on the basis of material contained in this newsletter.