



# How to be Your Own Taxman

**big money** Using your GST to pay income tax, before CRA comes back to haunt you. By Scott Taylor

It's a good habit to think of your income taxes like any other business expense and to plan appropriately. You'll eliminate those "surprise" tax assessments that make it hard to pay the bills, including the draw you pay to yourself.

One strategy is to have your accountant prepare a tax estimate for you each year. (I wrote about this in last month's column. If you missed it, send me an email or a self-addressed, stamped envelope and I'll forward a copy. (ScottT@tfsgroup.com)

So once you have your 2005 tax estimate from your accountant, how do you plan to pay this expense?

Whether you're a sole proprietor or an incorporated business, Canada Revenue Agency (CRA) expects you to set the appropriate amount of tax aside and make periodic payments, or installments.

## INSTALLMENTS FOR PROPRIETORSHIPS

Pay close attention here. If you're operating a proprietorship, you must pay enough by Dec. 31 to cover the amount you would otherwise have to pay on April 30 the following year.

If your total taxes payable are greater than \$2,000 this year (\$1,200 in Quebec) and were greater than \$2,000 (\$1,200 in Quebec) in either one of the two preceding tax years, then installments are required. Installments are due quarterly, on Mar.15, June 15,

Sept. 15, and Dec. 15.

Here's the rough part about installments, or more appropriately, the non-payment of installments. If you elect to not make them, and instead send your taxes in at the end of the year in one lump sum, CRA will assess an interest penalty calculated against what they say you should have paid. The interest charge on



the outstanding amount is compounded daily. Furthermore, the interest assessed by CRA is not an allowable expense. You cannot deduct it as you would interest on any other business loan.

At a time when operating costs are high and it's hard to set aside cash for anything, let alone taxes, you need a strategy for ensuring that you have enough to cover the payments when they are due.

Many of our clients use their quarterly GST/HST refunds to pay their income

tax installment payments. In the long run, it helps with budgeting and business planning and saves interest and penalty charges.

## INCORPORATED OWNER-OPS

The Income Tax Act requires corporations to make installment payments so they are treated the same as

on your corporation's federal taxes if your tax payable for either 2004 or 2005 is \$1,000 or less. Similarly, you don't have to make installment payments on your corporation's provincial or territorial taxes if the total of your provincial or territorial taxes for 2004 or 2005 is \$1,000 or less. However, the corporation has to pay its taxes, if any, within three months of your year-end date.

## A SIMPLE PLAN

If you're still paying taxes from 2004, you know what a drain they can be. The taxes alone don't reflect the true cost of a lump-sum payment or worse, payments that are late. Any installment interest or penalties will be shown on your Notice of Assessment. Review your 2004 NOA to see just how much extra you paid CRA last year and then add to that any interest charged for payments after April 30. That's the true cost.

Want to make a great start toward paying CRA your 2005 taxes? Set aside your GST/HST refund from the July-to-September and October-to-December periods as income-tax payments. Your GST/HST refund can be direct-deposited by CRA into a separate account from your business operations account. This will ensure it doesn't get lost in your everyday business activities. ▲

taxpayers who have tax deducted from their income at source; i.e. T4 employees.

Corporations must have enough tax paid in by their year-end or CRA charges interest if installments are not paid. CRA calculates the interest on each installment that you should have paid. Installment interest is compounded daily at the CRA prescribed interest rate.

Generally, corporations have to pay their taxes in monthly installments. You do not have to make installment payments

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