



All Together Now

big money *In six months, the government's going to start treating your personal taxes differently. Don't be taken by surprise. By Scott Taylor*

The Canada Revenue Agency (CRA) is in the midst of an initiative to ensure the Income Tax Act, Excise Tax Act, and other tax laws have common and consistent rules related to accounting, interest, and penalties.

In what it is calling a "harmonization of administrative provisions," CRA has taken the opportunity to gain greater access to all your government accounts starting April 1, 2007.

This means when CRA reviews one tax account, it will be able to review all of your government accounts, ensure that each one is current, and apply any refunds you may be due in one account to any debts you may have in another. For corporations, this means your GST, source deductions, and corporate tax accounts are related. Likewise, for sole proprietors, your GST, source deductions (if you have employees), and personal tax accounts will be connected.

Today, CRA typically only does this once a file is far into collections mode. In the future it may become an everyday practice.

How could this affect you? Effective April 1 of next year, CRA won't refund overpayments of tax or installments from your GST or income tax until all returns, due under any of your accounts, are filed. The intention here is to enforce filing compliance. If you want your refund, you



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must be current on filing all your returns. So if you're a sole proprietor and your personal income tax return is not filed, your GST refund will not be paid to you.

Also starting next April, CRA will not pay your GST or personal income tax refund if

you owe money on another tax account. Instead, any refund or rebate "may be" (which more likely means "will be") automatically offset against a debt you owe to the Receiver General from any other tax act.

This is the big one. You will no longer have the choice to use your GST refund as a tax payment. CRA could decide for you and scoop it. So for a sole proprietor if your personal taxes are not paid next spring, your GST refunds probably won't be issued to you and they will be applied against your income taxes.

Let's run through this hypothetical situation. You're a sole proprietor and purchase a new truck or trailer sometime between January and June 2007. You file your GST return for the period claiming back the money you need to make your balloon payment on your loan. You also file your personal tax return by April 30 or June 15. CRA steps in and decides to apply the refund to your personal taxes that you just filed. Because remember, if your taxes are not paid by April 30, you are behind. Imagine scrambling to cover the difference to make

your payment or explaining to the finance company why you're short.

Other changes coming into force on April 1, 2007:

■ Currently, CRA pays interest on your GST refund if it takes more than 21 days to process. Effective April 1, the timetable will be extended to 30 days. CRA is notoriously slow at processing refunds, so it's no surprise they're giving themselves more time.

■ The interest rate charged on overdue amounts and the interest paid on refunds is currently the same. That will change on April 1. The interest rate charged on late payments will be two percent higher than the interest CRA pays on late processing of refunds.

■ Today, penalties for late filings are charged at \$250 or five percent of the net payable amount, whichever is greatest. Starting April 1, the penalty will be a fixed charge of \$250 per return.

These changes, issued in July, are outlined in GST/HST Notice 212 and a Q&A document available online at www.cra-arc.gc.ca. The new rules become effective in just six months, so ask your accountant about Notice 212 and the strategies you can use to anticipate and manage their effects. You can also call CRA at 1-800-959-8287. ▲

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