

Expecting a tax refund? Not so fast

Lots of people count on their tax refunds for a quick influx of cash – a way to pay the tire guy or finance the family vacation.

Not anymore. On Apr. 1, the Canada Revenue Agency instituted a “harmonization of administrative provisions.” It’s a policy designed to make sure the Income Tax Act, Excise Tax Act, and other federal tax laws have common and consistent rules related to accounting, interest, and penalties.

It means CRA is taking a more concerted approach to tax compliance. The agency wants to make sure that all of your federal accounts – GST/HST, payroll, income, and excise – are up to date in their filings and have no overdue balances.

And how do you motivate businesses to file on time or pay what they owe? Well, if you’re waiting on that refund, keep reading.

CRA has linked the administration of all your business program accounts. When the agency reviews one tax account, it can review all of your government accounts. For corporations, this means your GST, source deductions, and corporate tax accounts are connected. Likewise, for sole proprietors, your GST, source deductions (if you have employees), and personal tax accounts are related. If you have overdue tax returns for any one of these accounts, CRA will not issue your refund or rebate. If you owe money on an account, your refund will be held or automatically applied against any other tax account debts you owe to the Receiver General.

While it’s good that CRA is coordinating tax compliance, there’s concern among owner/operators who are used to more flexibility with their refunds.

For example, if you’re a sole proprietor and you waited until June 15 to file your 2006 personal income tax return, some or all of your next GST/HST refund probably won’t come back to you. Most owner/operators fall short when they estimate their quarterly income tax installments, leaving a balance to be paid when they file their annual return. CRA will use your GST/HST refund to pay the outstanding balance. You no longer have the choice to use your GST refund as a tax payment.

Likewise, the refund may not be available to pay other debts. Say you’re a sole proprietor and you purchased a new truck or trailer sometime between January and June 2007. You file your GST return for the period claiming back the money – money you need to make your balloon payment on your loan. You filed your personal return Apr. 30 or June 15. CRA steps in and decides to apply the GST refund to the personal tax return you just filed. Because remember, if your taxes are not paid by Apr. 30 each year, you’re overdue. Imagine scrambling to cover the difference to make your payment or explaining to the finance company why you are short.

Tax Talk

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There are other changes now in effect concerning GST accounts:

1. CRA will pay interest to you if it takes longer than 30 days to process your GST refund. Previously, they paid interest after 21 days. CRA is notoriously slow at processing refunds, and now they’re reviewing all of your tax accounts for compliance. So it’s no surprise they have given themselves more time.

2. The interest rate charged on late payments is now 2% higher than the interest rate CRA pays

on late processing of refunds. Previously, they paid the same rate under both circumstances.

3. The penalty for not filing after CRA sends you an official request to file is now \$250 per return.

One way to stay on top of your federal tax accounts is to use CRA’s “My Business Account” service at www.cra-arc.gc.ca. It’s a secure Web site, so you’ll need to register and confirm your identity before you use it (CRA calls this getting an “epass”). From there, you can access returns, account balances, notices issued by CRA, and other details related to GST/HST, payroll, corporate income tax, and other accounts. There’s a similar service for personal taxes.

Previously, CRA typically only

reviewed all of a taxpayer’s accounts once a file was far into collections. Today, it’s an ongoing practice. Any time it appears you’re entitled to a refund or rebate, CRA is going to check for any overdue tax returns and balances owing. It wants to make sure the government gets taken care of first. As far as CRA is concerned, the tire guy or trip to Florida can wait.

For more information about the harmonization of administrative provisions, read CRA’s GST/HST Notice 212, available online at www.cra-arc.gc.ca. □

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