Tax Talk

Stick to the schedule

Paying taxes in installments

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Scott Taylor

Most Canadians pay income tax every two weeks. It's called *withholding*: your employer deducts a portion of the salary or wages from your paycheck and sends it to the Canada Revenue Agency (CRA) on your behalf. Ottawa gets its cash flow.

People who don't receive a regular paycheck but still have income are required to pay income tax payments in installments. If you're a sole proprietor and your total taxes payable are more than $3,000 this year or were more than $3,000 in either one of the two preceding tax years, your tax payments are due quarterly, on March 15, June 15, Sept. 15, and Dec. 15.

Sole proprietors must have paid enough tax by Dec. 31 to cover the amount they would otherwise have to pay on Apr. 30 of the following year. Corporations must have enough tax paid by their year-end.

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 at the CRA's prescribed interest rate.

Furthermore, the interest assessed by the CRA is not an allowable expense. You can't deduct it as you would interest on any other business loan.

Any installment charges will be shown on your Notice of Assessment. You should have your 2008 Notice of Assessment already; review it to see just how much CRA has added to your tax bill.

If you did not pay your taxes in full by Apr. 30, then even more interest will be charged as you pay the balance over the coming months.

Saving money to pay income taxes requires discipline, especially when there are other bills to pay.

We advise our clients to apply their quarterly GST/HST refunds to their income tax installment payments. CRA can direct-deposit your GST/HST refunds into a separate account from your business operations to make sure the money doesn't get used for everyday activities. In the long run it will help with your budgeting and business planning and save you any interest and penalty charges.

You may not have received your January to March refund yet and will be filing your April to June GST/HST refund in July. Taking both these refunds and sending them to CRA would be a great start toward paying your 2009 taxes.

Or why not establish a TFSA (Tax-Free Savings Account) at your bank and deposit your GST refunds there? There's a $5,000 yearly deposit limit into these types of accounts, but your money can grow tax-free.

With personal income tax filing season behind us, there's no better time to talk to your accountant or financial advisor about tax planning. For example, ask your accountant to compare how much personal income tax you paid comparing 2008 versus how much tax you would have paid if you had incorporated.

An important distinction will be the treatment of meals, and how, as an employee of your corporation, you could use the meal allowance and TL2 to reduce your tax obligation.

Ontario PST/GST countdown is on

We're nearly a year away from Ontario's deadline to harmonize its provincial sales tax with the federal GST program. Starting July 1, 2010, the PST paid on your business expenses will be refundable.

The Harmonized Sales Tax (HST) in New Brunswick, Nova Scotia, and Newfoundland has offered this benefit for years. Generally, owner/operators based there will see larger refunds because the HST paid is fully refundable on their business expenses.

If you're an owner/operator in Ontario, your GST refunds should increase once you start reclaiming PST paid on your expenses.

There are still details to sort out. For example, we're paying close attention to how this new policy will fit in with the International Registration Plan (IRP).

Remember that if you have an IRP cab card, you can use it to not pay sales tax on your truck repairs, maintenance, lease payments or purchase. I haven't seen anything about this yet but hopefully these items will remain PST-free rather than becoming taxable and then refundable through the new program.

When IRP was brought into Canada, not paying sales tax on these items was a benefit of the program. Instead, you now pay sales tax on the value of your truck and percentage of use in provinces that charge PST through your IRP plate renewal.

Perhaps this means Ontario won't be charging this anymore and your plate renewals will become cheaper. As more details come out about this program, I'll be sure to let you know. □

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