TAX TALK

Stick to the schedule

Paying taxes in installments

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

People who don't receive a regular paycheque 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 April 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 might have your 2010 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 April 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 2011 taxes.

Or why not establish a TFSA (Tax-Free Savings Account) at your bank and deposit your GST/HST refunds there? Your money can grow tax-free until you send your payment to CRA. There's an accumulating $5,000 yearly deposit limit into these types of accounts. If you have never set one up before you will be able to deposit $15,000 in 2011.

Start tax planning now

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 2010 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.

Disability tax credits

The federal disabled tax credit – $7,239 in 2010 – is intended to help people with "severe and prolonged" physical or mental impairment offset their medical expenses.

Eligibility depends on an assessment of your condition by both a doctor and CRA. They will consider whether you are "markedly restricted" in terms of speaking, hearing, walking, eliminating (bowel or bladder), feeding, dressing, or performing mental functions of daily life.

CRA broadened its eligibility criteria for the DTC in 2005, expanding the number of people who qualify. The agency also made the tax credit retroactive for up to 10 years, which has allowed some taxpayers with long-term disabilities to receive very large refunds.

There's a cottage industry of businesses expressly created to help people qualify for the DTC in exchange for a fee or hefty percentage of the refund. Many claims are legitimate, but others look suspicious: a recent CBC/*Toronto Star* report alleged that one company paid a doctor to certify fraudulent DTC forms so it could collect a 30% commission on its clients' tax refunds.

If you or a family member is coping with long-term illness or injury, talk to your accountant about DTC. Don't rely on the word of someone who makes his living off your refund. □

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