Five steps toward easier tax payments

I hope you had a busy summer of running hard and avoiding all those vacationers in their overloaded, pillow-crammed-in-the-back-window vehicles.

Of course, somehow September is flying by without a blink. And now it's nearly October. Traditionally, this is when owner/operators should stop and smell the aroma of taxes. With the year drawing to a close, there's still time to review your finances, adjust your tax plan (if you have one), and make a difference.

Whether you're a sole proprietor or an incorporated owner/operator, the good news is you've got three quarters of 2013 under your belt. With nine full months of income and expenses at hand, you can make a pretty accurate estimate of what your final tax bill ought to be.

Armed with this information, you're going to do five things:

Review your tax installments

Compare what you've already paid in installments in 2013 against your estimate for the entire year. If you need to adjust your monthly payment for the remainder of 2013 and into 2014, now is the time to do it.

Installments are not tax payments in advance; they are paid throughout the calendar year in which you are earning the taxable income. If you skip a payment, miss a deadline, or owe more tax than you actually paid, CRA will levy penalties and interest (currently 5%). In fact, not only does CRA add interest to your tax bill come April 30, it will charge interest on your overdue tax balance, which of course includes installment interest. They'll want interest on your interest.

Hopefully, you have been paying tax in installments. If not, here's what you should know about how to do it.

For sole proprietors, installments are periodic income tax payments made on certain dates (this year, on March 15, June 15, Sept. 15, and Dec. 15). With a few exceptions, you must pay your income tax in installments for 2013 if your net tax owing is more than $3,000 in 2013 or in either 2012 or 2011. Any balance owning after the final 2013 payment is due by April 30, 2014. If your installments add up to more than the total tax you owe, CRA will send you a refund after it assesses your 2013 tax return.

If you're incorporated, you are required to make installments under two possible accounts: one is for the corporate income tax and the other is your payroll account for any wages being paid to you or your family. Based on your corporate income, you may want to adjust your installment amounts being made to your payroll account. CRA also charges 5% interest if your corporate tax installments are insufficient.

Consider making major purchases

Do you need to buy a trailer? Replace your truck? Do serious repairs? Buy tires? If you plan to make a major purchase in the near future, you may want to do so before Dec. 31. There can be tax advantages to loading up on expenses in a high-income year. Spending $3,000 on tires in December could save you $900 owed to CRA come this April. Buying those tires in February, the following tax year, will delay your savings until April 2015.

Remember, your "purchase" means having a bill of sale or charge to an account or credit card dated no later than Dec. 31. You do not have to actually pay the expense until later.

Contribute to your RRSP

There's no magic answer here, but you have to look after your future. Putting $3,000 into an RRSP by March 1 could save $900 that would otherwise go to CRA come April.

Talk strategy

If you have an accountant or a bookkeeper, sit down together and review your financials for the year so far. Compare this year's numbers to last year. See where you've improved and what you can work on to minimize the amount of tax you owe. If certain items are higher or lower, you should know why. If you don't know, find out. Who knows what could be wrong or missing?

Streamline your payments

Electronic filing is quickly increasing in popularity as tax filers discover how convenient, easy, and secure filing online really is. In June, CRA announced that 20 million Canadians took advantage of electronic filing services, which is up from 17 million last year.

Still, that leaves roughly six million tax returns that were filed on paper. What a wonderful make-work program for Canada Post and CRA data-entry staff. If everyone e-filed, Canada Post would be in even more financial trouble than it already is.

Paying CRA is not fun. But paying in regular installments is much more affordable than dealing with one large bill or a slew of interest and penalties. Take steps now to make sure your tax payments are accurate and on time. ☐

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