

Articles Program



Taxes on the instalment plan

Are you self-employed? Are you receiving income from a Registered Retirement Income Fund (RRIF), investments or some other place that doesn't deduct income tax at the source? If yes, there's a good chance the Canada Revenue Agency (CRA) will want you to pay income tax instalments, says Chartered Accountant Rosa Maria Iuliano, Tax Partner, Collins Barrow Ottawa LLP.

Do you think this situation may apply to you? If so, Rosa's answers to the most common questions about paying income tax instalments might just help you out.

What exactly are tax instalments? These are regular income tax payments that some of us have to pay to the CRA on certain dates to cover tax we'd otherwise have to pay in a lump-sum amount on April 30 of the next year.

How does the CRA determine who makes tax instalments? If you're not having income tax deducted at the source, the way an employer does from your pay cheque, and your "net tax payable" (that is, the total amount of tax you owe, including the Canada Pension Plan (CPP) contributions you must make totalled \$3,000 in 2010 and either 2008 or 2009, you will most probably be asked to join the instalment plan.

How can I find out for sure if I have to pay instalments? Don't worry. The CRA will let you know and mail you instalment reminders. If you don't receive some kind of notification from them, you may not have to make the instalments, even if your tax liability exceeds the \$3,000 threshold in the relevant years.

When are these instalments due to be paid? In 2011, the dates are March 15, June 15, September 15, and December 15. When a due date falls on a weekend or holiday, it's considered to be on time if postmarked on the next business day.

Can I make payments electronically? The CRA is willing to accept your payments any number of ways. You can send a cheque in the mail or pay at your own financial institution, either electronically or in person. You can arrange for regular debit payments to be taken from your account, or set up the *My Payment* option on the CRA website, which enables you to make payments from your own bank or financial institution online through the CRA website.

What if I expect to make less money this year than in previous years? The CRA uses past information to determine whether or not you should pay instalments. If you're certain that when you file your return next year, the amount you'll owe will be less than the total of the instalments the CRA has set up for you, you can consider lowering your payments.

What happens if I don't make my instalments? Not advisable, Rosa says. If you fail to pay the required amounts that you actually owe on time, you can be charged with substantial interest and penalties on the deficiency.

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