

It Doesn't Pay to File Late

A recent survey shows that many Canadians are penalizing themselves at tax time. A full 19% of those polled admitted to missing a tax deadline and 28% think they have probably overlooked a tax write-off or exemption. In fact, 70% of respondents said they do not know the first official day they were eligible to submit their returns.

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Personal Income Tax Returns

Just as April is sure to bring showers, April also brings the tax-filing deadline for most individuals. Each year, Canadian taxpayers must file their personal income tax returns for the previous calendar year by April 30.

Self-employed individuals must file their personal income tax returns by June 15; however, they must submit any taxes owing by the earlier filing date, April 30, to avoid interest on the balance owing. The spouse or partner of a self-employed person can also defer filing his/her tax return until June 15.

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What Happens if You File Late?

Failure to file your personal income tax return or filing late can be an expensive exercise.

Say, for example, you did not pay your 2005 personal income taxes on time or there is a balance owing for 2005 on your Notice of Assessment. The CRA would have started charging interest as at May 1, 2006 on any unpaid amounts owing. The current rate of interest charged on unpaid taxes is 9%, compounded daily. Note also that the prescribed rate of interest can change every three months. If the return is filed late, you would also be subject to a late-filing penalty on which the CRA will charge you interest at the prescribed rate, starting the day after your return is due.

In the example above, the late-filing penalty is 5% of your 2005 balance owing at the time the return was due, plus 1% of your balance owing for each full month that your tax return is late and the amount remains unpaid, to a maximum of 12 months. The total penalty can be as high as 17%. If this is the second occurrence within three years and there has been a demand made by the CRA for that year's tax return, the penalties are increased to 10% of the balance owing plus 2% for each full month to a maximum of 20 months. In this case, the penalty could be as high as 50% of the taxes owing.

There is some relief. If you file your tax return late because of circumstances beyond your control, you can request the CRA waive or cancel the late-filing penalty they have charged you. The CRA will consider your case and may, in its discretion, waive the penalties.

Taxpayers who anticipate a refund or have a zero balance sometimes do not file on time. If you belong to this group, perhaps it is time to rethink your approach. If you are entitled to a refund, you will not face penalties for filing late. However, if you late-file a return with a refund requested then are reassessed later reversing the refund to a balance owing, late-filing penalties will be applied on the reassessment. If you are entitled to a refund, you do not start to earn interest on it until 30 days after the later of the day the return was due and the day you file it. Why leave your money in the Treasury's coffers?

If you have little or no income, you should still file your return. Child tax credits and GST credits can only be claimed if the tax return is filed.

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Corporate Tax Returns

Corporations must file their returns no later than six months after the end of each tax year. The taxation year of a corporation is its "fiscal period", which is usually the twelve-month period over which a business or profession reports its income-earning activities. The fiscal period may or may not coincide with the calendar year. The business usually establishes its fiscal period when it files its first income tax return. For example, a corporation with a tax year-end of March 31 has a filing deadline of September 30. For a tax year-end of August 31, the filing deadline would be February 28.

All corporations have to file a tax return every year even if there are no taxes payable. This includes non-profit organizations, tax-exempt corporations and inactive corporations.

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And if the Corporate Tax Return is Filed Late?

If your corporate tax return is filed late, the same penalties described above also apply to your corporation.

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Other Penalties

Failure to file certain information returns, which are normally part of your tax return, can result in additional late-filing penalties. These can apply even if you are entitled to a refund for the year. For instance, the failure to file form T1135 – Foreign Income Verification Statement, which is required when you own foreign investment properties with a cost of at least \$100,000, can result in a penalty of \$25 per day to a maximum of \$2,500.

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The Bottom Line: File on Time

Interest and penalties for late-filing can add up to a substantial amount very quickly. Not only does timely filing eliminate the non-deductible penalties and interest that could accrue but it provides an opportunity for more effective tax planning.

Be sure to meet with your chartered accountant throughout the year to discuss your personal and corporate financial strategies to ensure that the personal and corporate transactions you carry out do not result in unanticipated tax consequences. Your chartered accountant can help you review your financial structuring and advise on the timing and other requirements that help reduce the strain in paying your fair share.