

It's Your Money

Revenue Canada owes you nothing until you file

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So, it's tax return time and you don't have the money. Is it time

to make a midnight move or can you get off the hook by giving up your first born child?

Well, Revenue Canada is very

understanding. They understand the banking system.

They know you can borrow the money or sell assets or make

other arrangements for the money. They know you will address the situation. You'd better, because it won't go away — and the interest and penalties will be great if you don't do something about your situation.

By the way, there are many Canadians in the opposite position. They don't owe Revenue Canada any money so there's no urgency to file their returns. It's correct. You do not have to file if you owe no money, have earned no capital gains or have not received a request to file. However, it's becoming increasingly more important to file a return to receive the social benefits that are offered us.

In addition, this year for the first time, Revenue Canada is not required to pay us any interest on rebates until after June 14 or the date on which you file your tax return, whichever comes later. So, if you think you are

earning interest on the monies they owe, you are wrong. They don't owe anything until you file. By the way, we owe interest on our tax bill effective April 30 or sooner if we miss quarterly instalments but as mentioned they get until June 14.

The real expense though, can be with those who owe taxes but don't have the money to pay. They often play ostrich hoping the problem will go away. It won't.

In the past, collection procedures may have been slack but Ottawa and the provinces are short of cash so they've put some teeth into the rules to make sure we do pay as fast as possible. If we don't it's going to cost us.

If you owe money, make sure you file on time even if you can't send the money. You will still have to pay some interest but, at least you will save some large penalties.

The penalty for not filing on time is 5 per cent of the taxes you owe. If you owe \$1,000 you will be assessed \$50. So, you might as well get the paper work out of the way.

In addition, you will be assessed one per cent per month interest on the outstanding balance (including unpaid penalties) for a maximum 12 months. One per cent per month may not sound like a lot of money but don't forget that this interest is compounded daily. That will increase a 10 per cent rate, for example, to more like 10 1/2 per cent. In addition, everybody should remember that these payments are not tax deductible. That means that you have to earn as much as double that to have enough left over after taxes to pay this interest.

As a result, you might be paying as much as 20 per cent in real interest costs on this outstanding money.

Here's the rationale to get around these penalties. If you know you owe the money but you cannot file for some reason you should try to guess the amount you owe and pay it even though you aren't going to file. The penalty for late filing is five per cent of what you owe. But, you won't owe much, if any money. This strategy will also save you the one per cent per month interest penalty.


Conversely, if you have the information but no money it pays to file to avoid the five per cent penalty. You will, though, still be assessed the one per cent per month interest charge.

If you don't have the money don't attach a cheque that won't clear. You will be charged \$10 on top of your bank charges — and you will undoubtedly attract Revenue Canada's attention. You are better off attaching a short note explaining your difficulties and including post dated cheques.

Some taxpayers would be better off adopting a different strategy. For example, is it cheaper to borrow the money from a conventional lender to pay your tax bill? Is it better to cash investments to pay your bill?

Yes, I know that stocks and mutual funds have been doing well of late but Canada Savings Bonds and term deposits yield less than you will pay on outstanding tax bills.


It pays to cash interest bearing investments to pay your tax bill. You save tax on the interest you would have earned and you save penalties and higher interest charges. It pays to cash stocks and mutual funds as well.



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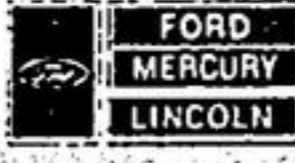

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