

THE NAVIGATOR



QUARTERLY TAX INSTALMENTS

What are they and when am I required to make them?

You should obtain professional advice from a qualified tax advisor before acting on any of the information in this article. This will ensure that your own circumstances have been considered and that action is taken on the most recent information available.

If you receive income year after year that has no tax withheld or has insufficient tax withheld, you may have to pay tax instalments. This may occur if you receive rental, interest, dividend, capital gains or self-employment income, certain pension payments or income from more than one employer because tax is generally not withheld on these types of income. This article explains what tax instalments are and the conditions where you are required to pay your tax by instalments.

WHAT ARE INSTALMENTS AND WHEN ARE YOU REQUIRED TO PAY THEM?

Instalments are periodic income tax payments that are paid to the Canada Revenue Agency (CRA) by certain dates (March 15, June 15, September 15 and December 15).

The CRA requires that your income tax liabilities be paid by instalments throughout the calendar year in which you are earning the income as opposed to making a lump sum payment on April 30 of the following year if your net tax owing (i.e. the amount due on your tax return) is more than \$3,000 (\$1,800 for Quebec residents):

a) in the current tax year; and

b) in either of the two preceding tax years.

For example, if your net tax owing for 2012 and either 2011 or 2010 is more than \$3,000, you may have to pay your income tax by instalments during 2012. Beginning in 2008 the combined federal and provincial (except Quebec) threshold of \$3,000 was increased from \$2,000.

CALCULATING YOUR INSTALMENT PAYMENTS

The CRA mails instalment reminders in February and August. These reminders suggest an amount to pay, and provide you with payment options and deadlines for making the payments.

Even if the CRA sends instalment reminders to you in 2012, you do not have to make instalment payments during the year if your net tax owing for 2012 will be \$3,000 or less (\$1,800 or less for residents of Quebec). Instead of paying the amounts indicated on the instalment reminders, you can choose to determine your required instalment payments based on any of following three allowable instalment options:

The three instalment payment options are:

- the no-calculation option;
- the prior-year option; and
- the current-year option.

The instalment reminders sent to you from the CRA are based on the



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If you are a resident of Quebec on December 31 of a year, a limit of \$1,800 instead of \$3,000 applies. The CRA collects income tax through tax instalments for federal purposes and on behalf of all provinces except Quebec. As a result, the \$3,000 threshold is reduced to \$1,800 for residents of Quebec. Quebec residents are subject to a similar tax-instalment system. Therefore, in addition to making tax instalment to the CRA, Quebec residents may be required to make tax instalments to Revenue Quebec.

For information regarding tax-instalment requirements for Quebec, visit the Revenu Quebec website:

http://www.revenu.gouv.qc.ca/en/citoyen/impots/rens_comp/acomptes/default.aspx.

no-calculation option. If you make instalment payments under the no-calculation option by paying the amounts on the instalment reminders by the due dates, the CRA will not charge instalment interest or a penalty, even if the total of the payments is less than the total amount of tax you owe.

Caution: If instead, you choose to calculate your tax instalment requirements using the prior-year or current-year option and your total instalment payments end up being less than the required amount or they are late, you may be subject to instalment interest or penalty charges. Any instalment interest and penalty charges that apply will show on your 2012 Notice of Assessment or Notice of Reassessment.

Refer to the CRA publication P110, "Paying Your Income Tax by Instalments," for a detailed discussion of the three options, how to determine your tax instalment under each as well as a discussion of the interest and penalties that may be charged if tax instalments are not made on time or are insufficient and you used the prior-year or current-year option.

SHOULD I JUST MAKE THE INSTALMENT PAYMENTS SUGGESTED BY THE CRA?

If your income, deductions and credits stay about the same from year to year, then the no-calculation method may be best for you, and you should simply pay the suggested amount indicated by the CRA on the instalment reminders. However, if your current-year income,

deductions and credits are significantly different year to year, you may want to consider the other two instalment options, which may ensure that you do not overpay your tax during the year or have a large amount of tax to pay when you file your return.

When to consider using another instalment option:

- If your 2012 income, deductions and credits will be similar to your 2011 amount but significantly different from those in 2010, you may want to use the prior-year option.
- If your 2012 income, deductions and credits will be significantly different from those in 2010 or 2011, you may want to use the current-year option.

Consider this example: Richard is trying to determine whether to pay the amount recommended on the tax instalment reminder received from the CRA. During the last few years, Richard earned rental income from a property he purchased, and early this year, he earned capital gains from disposing of it. The rental income resulted in net tax owing during the years the property was held. This year Richard expects a tax refund since he had sufficient withholding at source from his employment income and he made a large RSP contribution to offset the taxable capital gain, recaptured capital cost allowance and the small amount of net rental income earned.

The CRA uses the no-calculation option; therefore, Richard's instalment reminders are based on the previous two years' tax liability. Since Richard



You may want to reduce the amount of your instalment requirements, or eliminate the need for them completely, by requesting tax withholding or by increasing the amount of tax currently being withheld.

is confident that he will receive a refund this year, and thus not owe more than \$3,000, he concludes he does not need to pay the amount on the instalment reminders. Richard decides to ignore the CRA instalment reminders. Assuming he is correct and he does not owe more than \$3,000 on his 2012 tax return, he is right to ignore the instalment reminders. However, if he is wrong and it turns out that his net tax owing is higher than the amount he estimated, he may be subject to instalment interest and penalty charges.

REQUEST OR INCREASE TAX WITHHOLDING

You may want to reduce the amount of your instalment requirements, or eliminate the need for them completely, by requesting tax withholding or by increasing the amount of tax currently being withheld.

For example, you can request tax withholding or increase it for Old Age Security or Canada Pension Plan benefits by sending a completed Form ISP3520, "Request for Income Tax Deductions," to your Service Canada office or by calling 1-800-277-9914. You can also have additional tax

withheld from employment income or for pension benefits from an employer-sponsored pension plan by completing Form TD1, "Personal Tax Credits Return."

Note that income tax cannot be withheld on certain types of income such as self-employment, investment and rental income, and capital gains.

SPECIAL RULES FOR FARMERS, FISHERS AND DECEASED PERSONS

Different rules apply if your main source of income is self-employment income from farming or fishing. These rules are discussed in the CRA publication P110.

If an individual who has to pay tax by instalments dies during the year, instalment payments due on or after the date of death do not have to be paid.

If your tax situation is complex, you may want to have your tax advisor estimate your tax liability for the year. If you have any questions regarding your requirement to make tax instalment payments, you should contact your personal tax advisor.

Please contact us for more information.

Please contact us for more information about the topics discussed in this article.

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