Filing on time—and the costs of being late (April 2011)

It may seem like an obvious mistake to avoid, but every year some taxpayers pay unnecessary (and non-deductible) penalties and interest for no reason other than that they simply didn't get their returns in on time. For the record, a 2010 personal tax return is late-filed if it isn't sent to the Canada Revenue Agency (CRA) on or before May 2, 2011 or, if you or your spouse are self-employed, on or before June 15. In all cases, **tax amounts owing due must be paid on or before May 2, 2011.**

For some taxpayers, late-filing is just a matter of not having gotten around to it—few people view preparing their tax returns as anything other than an unpleasant chore. For others, missing or mislaid information slips are to blame. In many cases, where there is tax owing and the cash just isn't available to pay those taxes, taxpayers assume that it's better just to put off filing until the money is available and the payment can be made. Whatever the reason, not filing on time is, in all cases, the wrong decision.

Where the reason for not filing is missing information slips (for example, T4s or T5s), the best strategy is to estimate the amount and enter that estimate on the appropriate line of the return. It's also a good idea, in such circumstances, to attach a note for the tax authorities, explaining that the slip wasn't received, providing them with the name and address of the person or company which should have issued it and the kind of income involved (i.e., employment income or interest income), and explaining what steps have been taken (i.e., contacting the company or the bank) to get the missing information slip. While it's a surprisingly common misconception, it's **not** the case that if an information slip wasn't received, the income doesn't have to be reported for tax purposes.

In any case, where taxes are owed, late-filing means an automatic penalty will be imposed equal to 5% of those outstanding taxes, plus an additional 1% for every full month following during which the return is not filed, to a maximum of 12 months (or a total of 17% of the unpaid amount). As well, interest starts being charged on those unpaid taxes the very first day they are overdue. Few taxpayers realize that the interest rate charged by the CRA is, by law, well in excess of commercial rates of interest. Specifically, the rate of interest charged by the CRA is equal to its "prescribed rate" plus 4%, and any interest charges levied are compounded daily. The rate charged by the CRA from April 1 to June 30, 2011 will be 5%.

For taxpayers who make a habit of filing late, the news is even worse. If a late-filing penalty has been charged by the CRA in any of the previous three years, and another return is late-filed, both the immediate penalty and the recurring monthly penalty are doubled to, respectively, 10% and 2% per month, to a maximum of 20 months. In the very worst-case scenario, where the taxpayer was assessed a late-filing penalty within the previous three years and the current return is more than 20 months late, the penalty assessed can reach 50% of the unpaid tax amount.

Even where a refund is expected, and there is consequently no risk of incurring late-filing penalties, it doesn't make sense to put off filing. While the CRA pays compound daily interest (at a rate of 3% for the April to June 2011 period) on overpayments of taxes, the interest clock on such payments doesn't start running until the *latest* of the following three dates: May 31, 2011, the 31st day after the return is filed or the day after the taxes are overpaid.

So, no matter what your situation, getting your return in on time makes sense. In the worst case scenario, it can save you from paying substantial interest and penalties (now or in the future) or, where a refund is expected, can get your money into your hands more quickly, perhaps with interest added.