

Getting your return in—when and how? (March 2011)

If the constant flow of television commercials reminding taxpayers of the upcoming RRSP contribution deadline wasn't enough, the arrival of the 2010 tax return form and the issuance of tax information slips must leave taxpayers in no doubt that it's that time of year again. By the end of February or early March, taxpayers will usually have received all of the information needed to prepare their 2010 income tax returns. Issuers of T4s (for employment income) and T5s (for investment income, including interest and dividends) must send such information slips to employees, shareholders, and account holders by the end of February. Self-employed taxpayers, who must calculate their own business income for the year, will certainly be in a position to do so by the end of February. Finally, retirees who receive pension income, either from a former employer or from the Canada Pension Plan or Old Age Security program, will have received T4A information slips from the pension plan administrator or the government of Canada documenting that income for 2010.

The filing deadline for individual taxpayers (other than the self-employed and their spouses, who must file by June 15, 2011) is April 30, 2011. This year, however, taxpayers have a little extra breathing room. Since the April 30, 2011 filing deadline falls on a Saturday, a return will be considered by the Canada Revenue Agency (CRA) to be filed on time if it is received, or postmarked, on the next business day. For 2011, that day would be Monday, May 2. A similar extension applies to payments owed to the CRA.

Taxpayers who are expecting a refund are, however, well-advised to file as early as possible, as required processing times increase as the filing deadline looms. A return which might have been processed (and a refund issued) within three weeks if filed in early March will likely take twice that amount of time if filed in the last week of April. Taxpayers who will have a balance owing on filing and are disinclined to send that money to the CRA any earlier than absolutely necessary can still file well in advance of the deadline, and post-date the payment. As well, where there is a balance owed on filing, it's not necessarily a good idea to file as late as possible. Should the return be delayed in any way—for instance, through a computer or server crash or a postal delay, the return could end up arriving late, meaning that late-filing penalties and interest charges will be levied. In such circumstances, it's a better idea to file earlier and simply post-date the cheque to May 2, 2011.

For all taxpayers, including the self-employed, **all** taxes owed for the 2010 tax year are due and payable to the CRA on or before Monday May 2, 2011. No exceptions and, barring any extraordinary circumstances, no extensions are given. Taxpayers who are not in a position to pay taxes owing by the filing deadline sometimes put off filing, reasoning that there's no point to filing if the taxes owing from the return can't be paid. While that may seem logical, it's a mistake to file late, no matter what the reason. Where a tax return is late-filed, for any reason, the CRA levies a penalty calculated as a percentage of tax owing as of the filing deadline. The penalty varies, depending on whether the taxpayer has late-filed in the past, how often, and how recently that late-filing occurred, but the minimum penalty is 5% of taxes owed, plus interest on those taxes. A taxpayer who cannot come up with the money needed to pay taxes owed on filing should file anyway, and enclose a letter to the CRA explaining the reasons for the late payment. Generally, the CRA will be willing to set up a payment plan with the taxpayer through which the

tax owing can be paid over time. While it's impossible to avoid the interest charges which will be levied where taxes are paid late, a taxpayer who nonetheless files the return on time will at least avoid the late filing penalty.

It's worth noting that while the CRA can and usually does notice and correct arithmetical and clerical errors which appear in returns, the CRA does not (and cannot) ensure that taxpayers claim all the deductions, credits, and benefits available to them. It's up to the taxpayer to ensure that the annual return is completed accurately and all available deductions and credits are claimed and received—or lost.

At one time, the deadline for filing a tax return and the options for filing it were straightforward—everyone had to file by April 30, and the paper-and-pencil return was the only option. While paper filing is still an option, it's one used by a diminishing number of taxpayers every year. With each successive filing season, more and more taxpayers turn to one of the three available forms of electronic tax filing (or e-filing)—E-FILE, NETFILE or TELEFILE. Since most Canadian taxpayers are eligible to use at least one of these electronic methods, the choice is often one of personal preference.

The simplest electronic filing method is probably TELEFILE. TELEFILE is useful for those who don't have or don't want to use a computer, or who aren't interested in purchasing the software needed to use other e-filing methods, but who still want to take advantage of the faster return processing time that e-filing offers. Taxpayers whose tax situation is relatively straightforward and who are therefore eligible to use TELEFILE will receive a four digit “access code” with their return package. Even if the return package didn't include an access code, it's possible to get one (assuming that your tax situation qualifies) by calling the CRA's e-service Help Desk toll-free at 1-800-714-7257. Actually, using TELEFILE is quite straightforward, as the user is guided by a series of voice prompts and has the opportunity, at each step, to verify information entered or, if necessary, to correct it. The CRA's Web site also contains information on how to use TELEFILE, as well as the dates and hours when the service is available. This can all be found at <http://www.cra-arc.gc.ca/esrvc-srvce/tx/ndvdl/tlfl/bt-eng.html>.

Taxpayers who are able and willing to prepare their returns using computer software can take advantage of the CRA's NETFILE option. Each year, the Agency certifies or approves specific commercial software packages or Web applications which may then be purchased by the taxpayer and used to file a return through the CRA's Web site. As might be expected, there are encryption requirements which must be met to ensure the security of the data. The CRA's Web site contains a listing of browsers which meet those requirements, as well as a link to a listing of approved software and Web applications for the filing of 2010 returns, at <http://www.netfile.gc.ca/menu-eng.html>.

Both TELEFILE and NETFILE became available for the filing of 2010 tax returns as of February 14, 2011, and will continue to be available until September 30, 2011.

Finally, taxpayers who prefer to simply let someone else handle the entire tax filing process usually turn to E-FILE. E-FILERS are businesses (usually accountants or accounting firms or companies or individuals whose business is comprised solely of tax return preparation and filing)

who are authorized by the CRA to electronically file tax returns for clients. Information about e-filing, and a link to a listing of authorized e-file services providers (organized by postal code), can be found on the CRA's Web site at <http://www.cra-arc.gc.ca/esrvc-srvce/tx/ndvdl/fl-nd/menu-eng.html>.

No matter which filing method is chosen, it's important to make sure that any tax owed is paid by the May 2 deadline. If that deadline is missed, the interest clock starts running on May 3. And, although current interest rates are low by historical standards, taxpayers are often surprised to find that interest rates charged by the CRA are, by law, well in excess of current commercial rates. Currently (until March 31, 2011), the CRA charges interest on overdue or insufficient tax payments at a rate of 5%. And, by law, those interest charges are compounded daily, meaning that on each successive day after May 3, interest is charged on the interest levied the day before.

While no one likes paying taxes, or dealing with the administrative burden of filing a tax return, it's an annual chore that must be done eventually. Especially in light of the interest and penalty amounts which may be charged, putting it off just doesn't make sense.