

## How late tax filers lose money

Arthur Drache, Financial Post

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If you are a chronic procrastinator or simply have a phobia about doing your tax return, keep in mind that there may be substantial monetary costs to late filing.

The relatively easy part is if you are owed money by the government, if you don't file on time, you won't be getting a refund until you do so. That involves making an interest-free loan to the government, for no interest starts to accrue on what they owe you until a month or so after you do get around to filing.

Of course, if you have the right to get refundable tax credits such as the GST refund, the "baby bonus" or any other federal or provincial credit that is linked to income, you lose any right you have until you file. And for those who are married and expect credits that are based on joint income, the fact that one person files on time but not the other will still operate to delay payment of any credits that are due to you.

If you are a late filer and actually owe money to the taxman, the penalties are severe. The basic penalty for a failure to file is 5% of the unpaid taxes plus an additional penalty of 1% a month for up to 12 months. If the return is not filed within 12 months, the penalty rate increases. And of course there is interest payable on the unpaid amounts as well.

During the current quarter (April 1-June 30) the rate is 9% per annum compounded daily. These penalties and the imposition of interest are automatic, and it would take one whopper of a story to get the CRA to waive them.

If you just ignore the costs involved in late filing, bear in mind that at some stage the CRA may issue a demand that you file. And if you ignore that, the penalties can escalate. In extreme cases, (albeit rare) there could be a jail sentence or additional fines, particularly if a court finds that your failure to file was not mere procrastination but an attempt to evade tax.

So what do you do if you don't think you have all the data you need to complete your return or if you don't have the wherewithal to pay what you owe.

The best advice is that you should file a return in any event. If you are missing information for whatever reason, write a cover letter explaining what is missing and give some indication as to when the data will be available. When the information is received, send it along to the CRA with an explanation. Sending in an incomplete return gets rid of the potential latefiling penalties, though the return should evidence a serious attempt to give your financial data.

If you don't have the money to enclose a cheque with your return, file anyway and on time. In this case, a cover letter should be sent saying that you want to make arrangements to pay the amount owing.

What will normally happen is that the CRA Collections people, who we are regularly assured are sweetness and kindness personified, will make contact to arrange a payment schedule. While this will involve paying interest while the debt is outstanding, no penalties will normally be imposed.

We cannot think of any situations where a taxpayer is better off filing late, and this is why every effort, no matter how distasteful, should be made to meet the April 30 deadline.

adrache@drache.com

- - - Arthur Drache, CM, QC, is a partner at the Ottawa-based law firm of Drache LLP and is associate counsel to Miller Thomson LLP