

# If you received an instalment reminder from the CRA, do you really need to pay it?



**JAMIE GOLOMBEK** | August 19, 2016 11:03 AM ET  
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Sean Kilpatrick/The Canadian Press Under the Income Tax Act, quarterly tax instalments are required for 2016 if your "net tax owing" this year will be more than \$3,000 (\$1,800 for Quebec tax filers) and was also greater than \$3,000 in either 2015 or 2014.

***If you received a reminder about your next payment, here's how to check whether you actually need to pay up in September***

If you earned rental, investment or self-employment income, or realized capital gains in your non-registered account over the past couple of years, you may have just received your August 2016

instalment reminder, either in paper form or via email notification, from the Canada Revenue Agency.

The notice indicates that the next instalment payment is due on Sept. 15, 2016. But before paying the amount on the notice, take a moment to review the instalment rules to see if you really need to make the payment.

Instalments are meant to cover tax that you would otherwise have to pay in a lump sum next April 30. While Canadians often think of instalments as tax being paid in advance, that's not correct. Instalments represent recurring income tax payments that you're required to make during the calendar year in which you are earning taxable income not subject to tax withheld at source. Failure to make instalments, when required, can result in instalment interest and penalties.

Under the Income Tax Act, quarterly tax instalments are required for 2016 if your "net tax owing" this year will be more than \$3,000 (\$1,800 for Quebec tax filers) and was also greater than \$3,000 in either 2015 or 2014. The definition of net tax owing is complex, but essentially refers to your net federal and provincial taxes, less income tax withheld at source, plus any CPP contribution and EI premiums (if applicable) on self-employment earnings.

There are three methods for determining the amount you owe in instalments for 2016: the no-calculation method, the prior-year method and the current-year method.

With the no-calculation option, the CRA calculates your March and June instalments based on 25 per cent of the net tax owing on your 2014 assessed return. The Sept. 15 and Dec. 15 instalments are calculated based on the net tax owing from your 2015 return, less the March and June instalments already paid. If you follow the no-calculation method and pay on time, no interest or penalties will be assessed by the CRA, even if you end up owing more money when you file your 2016 return next spring. This option is best for you if your income, deductions and credits don't vary significantly from one year to the next.

The prior-year option bases the calculation solely on your 2015 income. You calculate your 2016 instalments based on your 2015 tax owing, and pay 25 per cent of the amount on each instalment date. This option may be best if your estimated 2016 income, deductions and credits will be very similar to last year's amounts, but significantly different from those in 2014.

Finally, under the current-year method, you are entitled to base your 2016 instalments on the amount of estimated tax owing for 2016. You pay one-quarter of that amount on each of the four instalment dates. This can be beneficial if your 2016 income, deductions and credits will be significantly different from those in both 2015 and 2014.

Note that if you only received an instalment reminder in August and the reminder didn't mention March or June 2016 instalment payments, under the no-calculation option, you simply pay the amounts shown in box 2 of your reminder for Sept. 15 and Dec. 15. Under the prior year-option, you would calculate your 2015 net tax owing and pay 75 per cent of the total on Sept. 15 and 25 per cent on Dec. 15. Similarly, under the current-year option, you simply estimate your current 2016 net tax owing and pay 75 per cent of the total on Sept. 15 and 25 per cent on Dec. 15.

By following these simple rules, you may decide that instalments are not required after all or, if indeed required, minimize any instalment interest and penalties.

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