



Changes in penalty and interest calculations have made it more expensive to file a GST return after the deadline.

The Cost of Late Filing

Les retards coûtent cher

Il est maintenant beaucoup plus coûteux de produire sa déclaration de TPS en retard.

by / par R. Jason Riche

NOW MORE THAN EVER it is critical to file GST returns on time. Changes to penalty and interest charges, which became effective on April 1, may have significant consequences for those who file after the deadline. Implemented as part of the 2006 federal budget to standardize the accounting of penalty and interest across all legislation administered by the Canada Revenue Agency (CRA), the changes were originally proposed in 2003 as the Harmonization of Administrative Provisions or the Standardized Accounting initiative. So although taxpayers have had plenty of notice, it is only now that the impact of these changes is really being understood.

Penalty and Interest Charges

Prior to April 1, assessed amounts were subject to interest based on the 90-day T-Bill rate. In order to calculate a monthly interest rate, the 90-day T-Bill rate was divided by 12 and rounded up or down to the nearest tenth of a per cent. In addition, assessed amounts were also subject to a six per cent annual penalty which was compounded daily.

Effective April 1, the six per cent penalty has been abolished and the interest rate has been increased. Interest is now calculated by taking the 90-day T-Bill rate, rounding it up to the nearest whole percentage, and adding an additional four per cent.

Under the old rules, interest and the six per cent penalty were deductible under the *Income Tax Act*. Under the new rules,

interest is no longer deductible. As a result, the after-tax cost of interest has increased as a function of the taxpayer's income tax rate. Further, a new late filing penalty has been introduced. This penalty applies at one per cent of the overdue amount plus 0.25 per cent of the overdue amount multiplied by the number of months the return is overdue to a maximum of 12 months (i.e., combined maximum of four per cent). This new penalty is not deductible.

An Illustration

Joe is the tax accountant for a mid-sized manufacturing firm. It is the last week in August and he has just returned from his annual three-week pilgrimage to his cottage in Muskoka. He spends a few days catching up on e-mails and near the end of the week he realizes he has not yet filed June's GST return (which was due on July 31). Irritated because he made the same mistake last year, he quickly pulls the numbers from the GL and completes the return. Joe becomes even more frustrated when he realizes that the \$350,000 owing is approximately the same as last year's June return for which he paid around \$3,000 in penalties and interest due to his late remittance. He is, however, somewhat comforted by the fact that the after-tax cost was only around \$2,000, since the penalties and interest were deductible.

Joe calls his friend Sam, an accountant in public practice, to double-check the current rates. Sam advises Joe that his penalty and

interest cost for filing June's return just over a month late is around \$7,000 (\$4,375 for the new late filing penalty, plus interest charges) and that, unlike last year, it cannot be deducted for income tax purposes. Accordingly, Joe's tardiness will cost his company about three-and-a-half times what it cost last year.

Refunds and Rebates

Interest on refunds and rebates will start accruing after 30 days (as opposed to 21 days) for refunds and 60 days (for pre-April 2007 periods) for rebates, and will be calculated based on 90 day T-Bill rates, rounded up to the nearest whole percentage, plus two per cent. However, effective April 1, no refunds or rebates will be paid unless all returns are filed and all amounts owing are paid for all taxes administered by the CRA. Refunds and rebates may, however, be offset against amounts owing to the CRA. ■

IL EST PLUS ESSENTIEL que jamais de produire sa déclaration de TPS à temps car les changements apportés aux pénalités et intérêts, entrés en vigueur le 1^{er} avril, pourraient avoir des conséquences graves pour les retardataires. Ces changements, annoncés dans le budget fédéral de 2006 afin d'harmoniser le calcul des pénalités et des intérêts dans toutes les lois relevant de l'Agence du revenu du Canada (ARC), avaient été proposés à l'origine en 2003 dans le cadre d'une initiative d'harmonisation des dispositions administratives ou de la comptabilité normalisée.