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Tax Instalments for Individuals¹

For employees whose income is subject to tax and related withholdings by their employers, tax instalments are not usually a concern. For other taxpayers – like self-employed individuals – paying tax instalments is required.

Subsection 156.1(2) of the *Income Tax Act* (Canada) (the “Act”) determines whether an individual taxpayer must pay an instalment on their income tax. The instalment rules look back to either of the two preceding tax years, as well as the current year, in determining current year liability. Methods of paying tax instalments are a matter of CRA policy as opposed to being covered in the Act. The CRA website details their policy regarding payments at www.canada.ca/en/revenue-agency/services/make-a-payment-canada-revenue-agency.html.

When Instalments Are Required

If your tax balance owing (on line 48500 of the T1 return, but not counting any instalments on line 47600) exceeded \$3,000 in either of the two preceding years, and you will have a similar excess in the current year, you must make instalment payments for the current year on March 15, June 15, September 15, and December 15.² Net tax owing includes federal tax and federal surtax, OAS (but not EI) clawback tax, and all provincial and First Nations tax collected under various income tax agreements; from this is deducted all amounts withheld for the year and all income tax credits, other than those paid out over time by the government (e.g., the GST credit and Canada Child Benefit).

¹ Farmers, fishers, and Québec residents have different rules which are not discussed here.

² When a due date falls on a Saturday, Sunday, or public holiday recognized by the CRA, the CRA considers your payment to be paid on time if it is received on the next business day.

Once it is established that instalment liability exists for the year, the calculation of that liability may be carried out using one of the methods explained in **Calculating Your Own Instalments** below (or you may allow the CRA to determine the amount of your instalment payments based on the information from your tax returns—see **CRA Instalment Reminders** below). Liability must be determined on a current year basis.

CRA Instalment Reminders

If you had an instalment liability for either of the two preceding taxation years, the CRA should send you instalment reminders for each quarter of the current year. The CRA sends the reminders twice a year, so that in February you receive an instalment notice for each of the March 15 and June 15 payments, and in August you receive notices for the September 15 and December 15 payments.

The first two instalments will be based on your tax return for the second preceding year and each should be equal to one fourth of your second preceding year instalment base³ (excluding any revisions to that liability). The second two instalments will be based on your tax return for the first preceding year and will each represent one half of your instalment base for that year (exclusive of carryback revisions) *in excess of* the total of the first two payments. These amounts are fixed and are not adjusted up or down for instalment payments actually made. On the other hand, if you have made partial payments or overpayments prior to receiving your instalment reminder, you need only pay the amount (if any) which will bring your payments for the period up to the amount shown on the notice.

The great advantage of paying the amounts on the instalment reminders is that they represent an absolute safe haven for instalment payers. If you pay the amounts shown on the notices by the due dates, you will have no liability for interest or penalties for instalment deficiencies even if the notices are in error or another method of calculation would have required higher instalments.

There may, however, be serious drawbacks to paying instalment reminder amounts, such as when you know your current income is falling below levels of prior years. The alternative to paying instalment notices likely to be excessive is doing a self-calculation as described in **Calculating Your Own Instalments** below.

Calculating Your Own Instalments

There are three options for calculating your current year instalments.

Option 1

The first option is to use the same method used by the CRA in issuing its instalment reminders as discussed above.

Option 2

The second option is to choose to use only your preceding year income to calculate your current year instalments. That is, you take the total preceding year tax liability after all credits and withholding (except instalments), divide by four, and pay the result quarterly by the 15th of March, June, September, and December of the current year. You can work out the instalments on the Calculation Chart at www.canada.ca/content/dam/cra-arc/migration/cra-arc/tx/ndvdl/tpcs/ncm-tx/pymnts/nstlmnts/instalment-chart-fill-25e.pdf.

³ The instalment base of an individual is generally the amount of tax paid under Part I of the Act for a particular taxation year.

Option 3

The third option is to choose to estimate your total federal and provincial tax payable for the current year, plus Canada Pension Plan payments and minus amounts otherwise remitted during the year, and make quarterly payments of the balance divided by four.⁴ The drawback to this estimated tax payment is if it turns out your actual tax is higher than the estimate, you may be liable for very substantial interest and penalties.

Interest and Penalties

Interest on Instalments: Failure to pay instalments results in interest accruing from the time the instalments are due. Where you have paid amounts other than interest or penalty in full, but there is interest or penalty of \$25 or less outstanding, the CRA has discretion to waive the interest or penalty. Otherwise, you will be charged instalment interest if *all* the following apply:

- You are required to pay by instalments in the tax year;
- You received an instalment reminder that shows an amount to pay; and
- You did not make any of your instalment payments, paid late, or paid less than what you had to pay.

Instalment interest is compounded daily at the prescribed interest rate, which can change every three months. The current interest rates are 8% on overdue taxes and 6% on non-corporate taxpayer overpayments.

Interest owing is calculated as follows:

Interest on each instalment payment you should have paid

Less

Interest on each instalment you paid

Penalty for Late or Deficient Instalments: A penalty with respect to an individual's late or deficient instalment payments will also apply. The CRA applies this penalty *only* if your instalment interest charges for the tax year are more than \$1,000.

To calculate the penalty, the CRA determines which of the following amounts is higher:

- \$1,000; or
- 25% of the instalment interest you would have paid if you had not made instalment payments for 2025.

Interest or Penalty Relief: You can reduce or eliminate interest and penalties if you do one of the following:

- overpay your next instalment payment; or
- pay your next instalment early.

This will allow you to earn instalment credit interest. This credit interest is not refundable and can only be used against any interest charges on insufficient or late payments for the same tax year.

Transfer of Instalments to Another Year or Account

The CRA can transfer payments received from one income tax account to another (including CPP, EI,

⁴ You can also work out these instalments on www.canada.ca/content/dam/cra-arc/migration/cra-arc/tx/nd-vdls/tpcs/ncm-tx/pymnts/nstlmnts/instalment-chart-fill-25e.pdf.

⁵ Interest is calculated from the day it was due to your balance due date, based on the payment calculation option that results in the least amount of interest.

⁶ The interest is calculated for the year starting from the date the payment was made or January 1 (whichever date is later) up to the balance due date.

GST, etc.) and from one year to another. Where this is done, the transfer is deemed to be effective at the time the original payment was made (and not to be effective *vis-à-vis* the original account from the same time). The amounts need not be instalment payments but can include any amounts that are or may become payable by the taxpayer.

Refund of Instalments: Undue Hardship

The CRA may refund excessive instalment amounts. For such a refund to be made, all the following conditions must be met:

- you must have paid one or more instalments of tax;

- it must be reasonable to conclude the total amount of the instalments you have paid exceeds the total amount of taxes payable for the year; and
- the Minister must be satisfied that the payment of the instalments has caused or will cause you undue hardship.

The refund is completely at the discretion of the CRA. Similarly, the amount of any instalment refund is to be decided by the CRA; the CRA may refund all or any part of an excessive instalment. For the purposes of computing interest and penalties, if you receive an instalment refund you are treated as not having paid the instalment to that extent.

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