The TaxLetter®

Vol. 33, No. 3 | Your Guide to Tax-Saving Strategies | March 2015

TAXSTRATEGY

April 30 is just around the corner. But for some people, the deadline is June 15

Tax filing time

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We're still in the first quarter of the calendar year and I'm already sick of hearing about tax deadlines. The deadline for contributing to your Registered Retirement Savings Plan (or RRSP) for the 2014 tax year has only just passed. And if you think you've earned a little breather from thinking about taxes, I hate to be the bearer of bad news, but the deadline for filing your income tax return is just around the corner.

I know it's only March, but if you have to start digging for receipts and other documents needed to prepare your tax return, then there is no time like the present to start. And if you are an employee, you better start that treasure hunt soon, as April 30 is coming up fast.

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Who's the June 15 tax filing deadline for?

However, if you are self-employed, or even if you simply carry on a business on the side, in addition to your employment, you might have time to take a month or two "vacation" from your taxes, as you can take advantage of the June 15 filing deadline for your return.

How the rules work

Notwithstanding the general April 30 deadline, if you carried on a business in the taxation year (subject to certain restrictions relating to the type of business carried on—see below), you are given until June 15 of the following year to file a return. This later deadline is also extended to your spouse (including a common-law spouse or partner).

However, if your spouse, common-law spouse or partner is living separate and apart from you as at December 31, 2014, by reason of a breakdown of the marriage and for a period of at least 90 days that includes December 31, 2014, your spouse (or common-law spouse or partner) does not get to enjoy the benefit of the extended June 15 deadline and must file by April 30 (which may not make you lose too much sleep, granted).

Of course, if both you and your spouse carried on a business in the taxation year, you are each granted the June 15 deadline regardless of whether you are living together.

Why the extension?

So why the extension? It relates to the fact that all individuals carrying on business are required to have a December 31 year-end (or to pay tax as though they did). Corporations that have a year-end of December 31 have until June 30 to file their tax return; so it only seems fair that if you are carrying on a business as an individual, you should get similar (if not exactly the same) treatment.

Are there any catches?

Of course there are a couple of catches to be aware of. Even though you can file up to June 15, the Canada Revenue Agency is not so generous as to let you off the hook from paying your taxes until then. April 30 will still be your "balance due date;" i.e., you have to actually cough up the money for any taxes owing on April 30; otherwise, you will be charged with interest on unpaid taxes—the current rate is five per cent, compounded daily.

What are the penalties and when do they apply?

Even so, this deadline may be very helpful if you miss the April 30 filing deadline and you owe taxes: If you don't file your return on time (either by April 30 or, if you qualify for the extended deadline, June 15), you will be subject to a penalty. The penalty is five per cent of the tax unpaid when the return should have been filed, plus one per cent of the tax outstanding at the time of the filing deadline, multiplied by the number of complete months (not exceeding 12) between the actual filing deadline and when you actually filed the return.

In short, the maximum penalty is 17 per cent of the tax unpaid. The penalty can be applied even when you file the return only two days late. This penalty is added to your assessment, and if you want to object, you have to actually file a notice of objection to the assessment.

Note: If you have a habit of filing late, be aware that if you were charged this penalty for your previous three past tax returns, the penalties are doubled for the 2014 tax year (10 per cent of the tax owing plus two per cent for each month outstanding).

Exceptions to the rules

Of course, if you are late filing due to circumstances beyond your control (i.e., you are hospitalized due to a serious illness) you can apply for leniency by making an application under the taxpayer relief provisions to have the penalties and interest reduced. The request should be made in writing and addressed to your local Tax Services Office.

Does that June 15 deadline apply to you?

If you find yourself unable to file by April 30, it may be particularly important to determine whether you qualify for the June 15 extension. It applies if you are a "consultant;" i.e., rather than being an employee for tax purposes, you are classified as an "independent contractor." The June 15 deadline will also apply if you carry on business through a partnership—even if you are a limited partner.

How about if you have limited partnership investments?

Since many investments are structured as limited partnerships, this seems to open up the possibility that investors in these vehicles might be able to file on June 15. In fact, the rules appear to say that if you met the prerequisites at any time during the year, you're eligible for the extension. But if you invested in a tax shelter investment, you will not be eligible for the June 15 deadline.

More specifically, if the expenditures made in the course of your carrying on the business are primarily the cost or capital cost of tax shelter investments, or primarily tax shelter investments themselves, you won't qualify for the extended deadline.

For this purpose, tax shelter investments are certain limited partnership interests (basically where expected write-offs within four years of acquisition equal or exceed the cost of your investment, net of prescribed benefits), or are registered tax shelters as defined in the Income Tax Act (Canada).

Not sure? Be prudent

The foregoing is a close reading of a lot of tax fine print. So it may be prudent not to claim the extension unless you're in a jam. However, if you have been assessed late filing penalties, these arguments may come in handy.

The later deadline is not family-wide

And if your spouse, common-law spouse or partner does take advantage of filing by the June 15 deadline, you should be aware that this extension is not a family-wide benefit. If you have any children who file returns, those returns must still be filed by April 30.

So why can it apply to your spouse?

The extension for your spouse (if you are carrying on business) is granted mainly to facilitate compliance with the child tax benefit provisions, which requires filings by both spouses.

Accordingly, the issue of whether you and your spouse are living together is determined under the child tax benefit rules. Happily, the extension applies regardless of whether your spouse actually receives the child tax benefit; for example, it applies even if you and your spouse have no children.

What if you make an error in your tax return?

If you are not carrying on a business and cannot take advantage of the extended June 15 deadline, you're going to have to bite the bullet and file by April 30. This can sometimes result in a rushed filing and, occasionally, a mistake or two on your return.

An error or omission can also result in either an increase or decrease to the tax payable to the government. However, the Canada Revenue Agency prefers that you do not file an amended income tax return in these circumstances.

Instead, you should write to the Tax Centre where you filed your return, with an explanation and any additional material such as T4 slips, T5 slips and receipts. It is likely that the Canada Revenue Agency will also prefer that you include Form T1-ADJ to organize the presentation of your adjustment request in a convenient fashion. Correspondence with the Canada Revenue Agency should include your Social Insurance Number or Identification Number. ❐