



Filing Back Taxes

You messed up. Time got away from you (as it does all of us sometimes) and now you owe taxes from previous years. At some point between two and four-thirty in the a.m., you've conceded that the ostrich method of dealing with unpleasant realities (i.e., sticking your head in the sand until the scary thing goes away) is simply not going to wash with the CRA and now you feel like you're drowning. So, now what?

First, let's look at where you stand. The taxes you've calculated (or that I've calculated for you) are owed. There's no getting around that. The same goes with GST/HST if you run a business. If you haven't paid back the GST/HST you've charged, the CRA will want that repaid.

Late Filing Penalty

The CRA charges 5% of your balance owing for a given year plus 1% for each month your return is late to a maximum of **twenty months**. That means if you owed \$500 in 2015, your penalties would be \$125.

The CRA can change interest rates every three months, so if you owe business-related taxes like GST/HST, excise duty, or export charges, it's best to check their current Prescribed Interest Rates: http://www.cra-arc.gc.ca/tx/fq/ntrst_rts/menu-eng.html.

Failure to Report Income

If you had 'some' income (\$500 or more) that did not make it onto your tax return, even if you reported 'most' of your income, the CRA deems that you have *failed to report*. That's not good. If they've found you've failed to report in a prior year, they can now assess a *repeated failure to report income penalty* in the amount equal to the lesser of 10% of the amount you failed to report in the current year, or 50% of the difference between the tax break you received and the amount you should have been assessed.

It gets deeper. If the CRA deems that you have made a false statement or omission that could constitute gross negligence on your part, they can slap you with another \$100 or 50% of the difference the false statement or omission made to your tax bottom line; whichever is greater. Ouch!

You Can Be Forgiven

Ok, there is a bright spot in all of this. Like a confessional, there is forgiveness for those who admit to the error of their ways. The CRA Voluntary Disclosure Program gives you a one-



time opportunity to change a tax return you previously filed or one you should have filed. To do so, you need to apply using this form to ask for relief from prosecution or penalty: <http://www.cra-arc.gc.ca/E/pbg/tf/rc199/README.html>. Whether the CRA grants you relief from the penalties or not, the back taxes you owe are not part of the deal. You still owe them. If you can't pay all of them right away, the interest charges I mentioned at the start will still apply.

Although the Voluntary Disclosure Program only works for penalties assessed within the past decade, you can use it for a variety of issues: individual taxes; corporate taxes; for your business or partnership; for a trust; export of softwood lumber; or for GST/HST remittance or claim. But, again, this is a **one-time** opportunity after which the CRA expects you to toe the line.

That's it! Once you have paid your back taxes and dealt with any assessed penalties and are safely bobbing on the surface like the rest of us, make sure you keep on top of your obligations to the CRA. If you're not sure how to do that, take heart! Keep an eye on future newsletters for how-to articles and hints, or book a consultation with our office and we'll help to keep you above water.