



**“Help! I’ve fallen, and I can’t get up!”
A look at what happens if you can’t pay your taxes.**

No one starts out thinking there will come a time when they are unable to pay their taxes just as no one anticipates that a simple fall will render them immobile. But it happens. Everyone’s circumstances are different, and if you’ve ever found yourself in a jam where you feel completely helpless, you understand that knowing what comes next can put your situation into perspective and provide you with a modicum of comfort. So, you’ve pressed the panic button and help is on the way. Let’s go over next steps while we wait.

If you owe money after the annual deadline passes, the CRA will charge interest on that debt at the prescribed rate compounding daily. Because that rate (currently 5%) is higher than current lending rates, it makes sense to get a line of credit to pay the balance in full and then work on paying down the line of credit.

If, however, you do not have access to a line of credit, you will need to contact the CRA immediately to make payment arrangements. I get that making that call may cause you some anxiety, but hoping your situation will change but doing nothing about it will not get you off the floor! The CRA will expect you to pay your debt within six months and will most likely agree to payments with that goal in mind. Once you agree to the payment arrangements, stick to them. If you default on those arrangements, the CRA can freeze your bank account, or lien your house without further notice.

If your particular circumstance makes payment of the debt within the six-month timeline impossible, the CRA will require proof from your bank that a loan from them is not an option. Now, although most banks will not lend you money if there is CRA debt outstanding, the CRA will still require a written denial from the lender.

At that point, the CRA will require an Income and Expense statement. You can get one here:

<https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/rc376/rc376-12e.pdf>

Regardless of why you owe back taxes or how you ended up in this jam, you will need to stay current for the year. When you come to an agreement with the CRA on a plan that works (one you can stick to) make sure it’s a plan that not only deals with your outstanding debt but one that allows you to stay current as well. That strategy will prevent the payable at the end of the year.

To help prevent a payable, transfer:

- ✓ 13% of all sales to a savings account for HST
- ✓ 20% of gross wages for employee source deductions
- ✓ 15% of net profits for income tax.

These are guidelines. We will discuss specific numbers in your tax pickup meeting.

Remember, when you have payment arrangements in effect with the CRA, you need to stay in constant contact with them. An error in payment receipt or a misunderstanding between you and the government could cost you dearly. It’s much easier to prevent an error than fix one!

That’s it. You’ve pressed the button and help is almost here. Professionals will arrive, dust you off, and help you to your feet, but it will be up to you take the next steps, adhere to the necessary precautions,

and do the prescribed exercises to prevent a recurrence. Remember, help is only a phone call (or button press) away.