



Canada Revenue
Agency

Agence du revenu
du Canada

Paying Your Income Tax by Instalments

Includes Form T1162A-1

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La version française de cette publication est intitulée
Le paiement de votre impôt par acomptes provisionnels.

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What are instalments?

Instalments are periodic income tax payments that individuals have to pay to the Canada Revenue Agency (CRA) on certain dates, to cover tax that they would otherwise have to pay in a lump sum on April 30 of the following year. Instalments are not paid in advance; they are paid throughout the calendar year in which you are earning the taxable income.

Why do you have to pay tax by instalments?

You have to pay tax by instalments for the same reason that most people have tax withheld from their income throughout the year. If you receive income that has no tax withheld or does not have enough tax withheld for more than one year, you may have to pay tax by instalments.

This can happen if you receive rental, investment, or self-employment income, certain pension payments, or income from more than one job.

Who has to pay by instalments?

You have to pay your income tax by instalments for 2009 if your **net tax owing** is more than \$3,000:

- in 2009; and
- in **either 2008 or 2007**.

Quebec residents – If you live in Quebec on December 31 of a year, use a limit of **\$1,800** instead of \$3,000 for that year.

Farmers and Fishers – Different rules apply if your main source of income in 2009 is self-employment income from farming or fishing. For details, see “Farming and fishing” on page 19.

Net tax owing – In general, this is the amount you owe on your tax return. The items used to calculate net tax owing are listed in the chart on page 12.

When are your payments due?

Your instalment payments for 2009 are due March 15, June 15, September 15, and December 15, 2009.

When a due date falls on a Saturday, a Sunday, or a holiday recognized by the CRA, we consider your payment to be paid on time if we receive it or if it is postmarked on the next business day. For a list of holidays, visit our Web site at www.cra.gc.ca/duedates or call 1-800-959-8281.

Your payment will be considered paid on one of the following dates:

- Payments you make in person at your financial institution are considered paid on the date stamped on your INNS3 receipt.
- Payments you send by mail are considered paid on the date you mail them.
- Payments you made through your financial institution’s Internet or telephone banking services are considered paid when your financial institution credits us with your payment.
- Post-dated cheques and payments you make by pre-authorized debit are considered paid on the negotiable date.

Deceased person – If an individual who has to pay tax by instalments dies during the year, instalment payments due on or after the date of death do **not** have to be paid.

What is an instalment reminder?

Instalments reminders are issued to help you determine if you have to pay income tax by instalments. The reminder will suggest an amount to pay and list the payment options. See “Calculating your payments” on the next page for details on the payment options.

In February and August, we send instalment reminders to individuals who **may** have to pay tax by instalments. The February reminder is for the March and June payments, and the August reminder is for the September and December payments. You can also see your instalment reminders online by using **My Account** on our Web site at www.cra.gc.ca/myaccount.

Note

If the only reminder we send you in 2009 is for the September and December due dates, see “Did you only get an instalment reminder for September and December 2009?” on page 11.

Even if we send you an instalment reminder in 2009, you **do not** have to make instalment payments for 2009 if your net tax owing for 2009 will be \$3,000 or less (\$1,800 or less for residents of Quebec).

Calculating your payments

You have three instalment payment options:

- no-calculation option;
- prior-year option; or
- current-year option.

If you choose the best instalment payment option for your situation, you will not overpay your tax during the year or have a large amount of tax to pay when you file your tax return. **You do not have to tell us which option you choose, even if that option requires no payments.** The instalment reminders we send you are always based on the no-calculation option.

Note

If you have to pay by instalments **and** you have to pay Canada Pension Plan (CPP) contributions on self-employment and other earnings (see line 421 in the *General Income Tax and Benefit Guide*), your instalment payments are based on your net tax owing **and** your CPP contributions payable.

No-calculation option

This option is best for you if your income, deductions, and credits stay about the same from year to year.

We will provide the no-calculation option amounts on the instalment reminders that we will send you in February and August 2009. If you choose this option, just pay the amounts shown on the reminders by each due date.

We calculate the amount of your instalments as follows:

- We base your instalments for March 15 and June 15, 2009, on tax information from your assessed tax return for 2007. Each of these two instalments is equal to one-quarter of your 2007 net tax owing and any CPP contributions payable.

- For your September 15 and December 15, 2009, instalments, we subtract the total amount of your March and June 2009 instalment reminders from your 2008 net tax owing and any CPP contributions payable. We then divide the remaining amount equally between your September 15 and December 15, 2009, instalments.

If you use the no-calculation option and make the payments shown on the reminders by their 2009 due dates, we will not charge instalment interest or a penalty, even if the total of the payments is less than the total amount of tax you owe for 2009.

Example

Jake is self-employed and has to make instalment payments in 2009. His income increased slightly over the last two years, and he expects it will increase again in 2009. Jake's net tax owing and CPP contributions payable were \$6,000 for 2007, and \$6,600 for 2008.

We calculate Jake's March and June instalment payments for 2009 each as one-quarter of his net tax owing and CPP contributions payable for 2007.

We calculate his September and December payments by subtracting the first two instalment payments that we calculated above from his net tax owing and CPP contributions payable for 2008 and dividing the result by 2.

Using the **no-calculation option**, Jake makes the four instalment payments shown on his 2009 reminders, as follows:

	Instalment payments	
March 15	(\$6,000 ÷ 4)	\$1,500
June 15	(\$6,000 ÷ 4)	\$1,500
September 15	(\$6,600 – \$3,000) ÷ 2	\$1,800
December 15	(\$6,600 – \$3,000) ÷ 2	<u>\$1,800</u>
Total		<u>\$6,600</u>

Prior-year option

This option is best for you if your 2009 income, deductions, and credits will be similar to your 2008 amount but significantly different from those in 2007.

If you choose this option, you have to calculate your instalment payments based on your prior-year (2008) net tax owing and any CPP contributions payable. Use the chart on page 12 to help you calculate your total instalment amount due and pay one-quarter of this amount on each instalment due date.

If you use the prior-year option and make the payments in full by their 2009 due dates, we will not charge instalment interest or a penalty **unless** the total instalment amount due you have calculated is too low. For more information, see “Interest and penalty charges” on page 17.

Example

Gayle has to pay her tax by instalments in 2009. She retired at the end of 2007 and her pension income this year will be close to what it was in 2008, but much less than her employment income was in 2007. Using her 2008 tax return and the calculation chart on page 12, she calculates that her total instalment amount due is \$4,000.

Using the **prior-year option**, Gayle makes four instalment payments in 2009, based on her calculations, as follows:

	Instalment payments
March 15	\$1,000
June 15	\$1,000
September 15	\$1,000
December 15	<u>\$1,000</u>
Total	<u>\$4,000</u>

Current-year option

This option is best for you if your 2009 income, deductions, and credits will be significantly different from those in 2007 and 2008.

If you choose this option, you have to calculate your instalment payments based on your estimated current-year (2009) net tax owing and any CPP contributions payable. Use the chart on page 12 to help you calculate your total instalment amount due and pay one-quarter of this amount on each instalment due date.

If you use the current-year option and make the payments in full by their 2009 due dates, we will not charge instalment interest or a penalty **unless** the amounts you estimated when calculating your total instalment amount due were too low. For more information, see “Interest and penalty charges” on page 17.

Example

Jesse has to pay his tax by instalments in 2009. However, since Jesse’s investment income decreased this year, he knows he will owe less tax in 2009, and as a result, he can make lower instalment payments than he did in 2007 and 2008. Using a 2008 tax return, the calculation chart on page 12, and his 2009 income estimates, he calculates that his total instalment amount due will be \$5,000.

Using the **current-year option**, Jesse makes four instalment payments in 2009, based on his calculations, as follows:

	Instalment payments
March 15	\$1,250
June 15	\$1,250
September 15	\$1,250
December 15	<u>\$1,250</u>
Total	<u>\$5,000</u>

Did you only get an instalment reminder for September and December 2009?

If you decide to use the **no-calculation option** (see page 7), pay the amount shown in box 2 of your reminder for September 15 and December 15.

If you decide to use the **prior-year option** (see page 9), calculate your 2008 net tax owing and add any CPP contributions payable. Pay three-quarters of the total on September 15 and one-quarter on December 15.

If you decide to use the **current-year option** (see page 10), estimate your current-year (2009) net tax owing and add any CPP contributions payable. Pay three-quarters of the total on September 15 and one-quarter on December 15.

Note

Whichever option you choose, if you have already made a payment for the March 15 and June 15 due dates, you can subtract those amounts from your September 15 payment.

Calculation chart for instalment payments

The chart on the next page lists the items used to calculate **net tax owing** (line 14). It is also used to determine your **total instalment amount due** (line 16) when you choose either the prior-year or current-year payment option (see pages 9 and 10).

To complete the chart, see your *Notice of Assessment*, *Notice of Reassessment*, or a tax return and your prior-year or estimated current-year income information, depending on the option you decide to use. Then, enter the amounts that correspond to the lines in the chart.

Note

Do not send us any tax returns you may have completed to make your estimates.

Calculation Chart

The line references are from your tax return, *Notice of Assessment*, or *Notice of Reassessment*.

Net federal tax (line 420)	\$	_____	1
Old Age Security (OAS) repayment (line 422)	+	_____	2
Provincial or territorial tax (line 428)	+	_____	3
Yukon First Nations tax (line 432).....	+	_____	4
Total payable (add lines 1 to 4)	=	_____	5
Total income tax deducted (line 437) (Quebec residents use line 439)		_____	6
Refundable abatements (line 440 plus line 441).....	+	_____	7
Refundable medical expense supplement (line 452)	+	_____	8
Working income tax benefit (line 453).....	+	_____	9
Refund of investment tax credit (line 454)	+	_____	10
Part XII.2 trust tax credit (line 456)	+	_____	11
Provincial or territorial credits (line 479).....	+	_____	12
Total credits (add lines 6 to 12)	=	_____	13
Net tax owing (line 5 minus line 13)	=	_____	14
CPP contributions payable on self-employment and other earnings (line 421).....	+	_____	15
Total instalment amount due (line 14 plus line 15).....	= \$	_____	16

Reducing your instalments

You can reduce the amount of your instalment payments, or you may not have to make instalment payments at all, if you reduce your net tax owing. You can do this by having tax withheld, or by increasing the amount of tax withheld, from certain types of income.

To have income tax withheld from Old Age Security (OAS) or Canada Pension Plan (CPP) benefits, send a completed Form ISP3520, *Request for Income Tax Deductions*, to your Service Canada office.

You can get Form ISP3520 from the Service Canada Web site at www.servicecanada.gc.ca or at your local Service Canada office. For the address of that office, see the Service Canada Web site or the listings in the government section of your telephone book. You can also ask to have income tax deducted from your monthly OAS or CPP benefits by calling **1-800-277-9914**.

To have tax withheld from employment income or for pension benefits from an employer-sponsored pension plan, give a completed Form TD1, *2009 Personal Tax Credits Return*, to your employer or pension plan administrator. To get this form, visit our Web site at www.cra.gc.ca/forms or call **1-800-959-2221**.

Income tax **cannot** be withheld from certain types of income, such as self-employment, investment, and rental income, and capital gains.

Example

Hugh, a resident of Alberta, pays his tax by instalments. He decides to have more tax withheld from his income in 2009. His net tax owing has been \$3,500 for several years, and he expects it will stay the same in 2009. Starting in January 2009, Hugh has an extra \$250 withheld each month from his pension income.

Hugh now estimates his net tax owing will be \$500 for 2009. Based on his estimate, he does not have to make instalment payments in 2009 because his net tax owing will not be over \$3,000 for 2009. Hugh would disregard the instalment reminders he gets for 2009.

Making your instalment payments

How and where do you make your instalment payments?

Each instalment reminder package we send includes Form INNS3, *Instalment Remittance Voucher*. Form INNS3 includes two tear-off voucher sections (call **1-800-959-8281** if you need more copies).

You can choose any of the following methods to make your payments.

Electronically – You cannot make electronic payments to us directly. You may be able to pay electronically through your financial institution's Internet or telephone banking services and you may be able to schedule post-dated payments. Visit our Web site at **www.cra.gc.ca/electronicpayments** or contact your financial institution to see which services they offer.

At your financial institution – You can make your payment free of charge at your branch of a Canadian chartered bank, *caisse populaire*, or credit union. However, the institution will only accept your payment if you have Form INNS3 from the CRA. The teller will stamp Form INNS3 and give it to you as a receipt.

By pre-authorized debits – You can have your instalment payments debited from your bank account. To do this, use **My Account** on our Web site at **www.cra.gc.ca/myaccount**

or send a completed Form T1162A-1, *Pre-Authorized Payment Plan (Personal Quarterly Instalment Payments)*, to:

Canada Revenue Agency
PO Box 9659 Station T
Ottawa ON K1G 6L7

To cancel the pre-authorized debit plan or to change the amount of your payments, send a letter to the above address, or a fax to **613-954-9777**, or call **1-800-959-8281**. Starting in February 2009, simple cancellation requests can be processed online. To do this, use **My Account** on our Web site at **www.cra.gc.ca/myaccount**.

To change your banking information, you have to send a letter to the above address or a fax to **613-954-9777**.

Note

Any change can take up to **30 days** to process.

By mail – You can send a cheque (post-dated cheques accepted) or money order payable to the Receiver General, and a completed voucher section of Form INNS3, to:

Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1B1

Please write your social insurance number on the back of your cheque or money order to help us process your payment correctly.

After you have made a payment

We will not immediately issue a receipt for a payment you make, so you should keep your cancelled cheque or bank receipt as proof of your instalment payment. A record of your payments will be shown on the back of Form INNS1, *Instalment Reminder*, or on Form INNS2, *Instalment Payment Summary*. We issue these in February and August. You can also see the instalment payments you have made by using **My Account** on our Web site at **www.cra.gc.ca/myaccount**.

If you make a payment with a cheque that your financial institution does not honour, including a cheque on which you put a stop-payment, we will charge you a fee.

To request the transfer of a payment that appears on your summary but is not intended as an instalment payment, or to ask that a payment be refunded to you, send a letter to your tax centre or call **1-800-959-8281**.

Did you move from Quebec in 2009? If you made instalment payments to Revenu Québec for 2009, you have to notify them of your change of address and ask for a refund of those amounts. Send the refund to us with a letter from Revenu Québec that provides the dates those payments were made. We will use this amount to cover the provincial tax in your new province of residence.

Completing your tax return

In February 2010, you will be able to see the total of your instalment payments for 2009 on the back of Form INNS1, *Instalment Reminder*, or on Form INNS2, *Instalment Payment Summary*.

Claim this amount as a credit on line 476 when you complete your 2009 tax return. If you made an instalment payment for 2009 that is not shown on Form INNS1 or Form INNS2, include that amount on line 476 as well.

Any balance of tax you still owe is due by April 30, 2010. If the instalments are more than the total tax you owe, we will send you a refund when we assess your 2009 tax return.

If you are expecting a refund, you can ask us to transfer the full amount of your refund to your instalment account. To do this, attach a note to your tax return requesting the transfer. We will consider such a payment to have been received on the date that we assess your tax return.

Interest and penalty charges

Any instalment interest and penalty charges that apply will show on your 2009 *Notice of Assessment* or *Notice of Reassessment*.

Instalment interest

We charge instalment interest if **all** of the following conditions apply:

- we send you an instalment reminder in 2009 that shows an amount to pay;
- you are required to make instalment payments in 2009 (see “Who has to pay by instalments?” on page 4); **and**
- you do not make instalment payments, or you make payments that are late or less than the required amount.

We calculate the interest on each instalment that you should have paid using the payment option that calculates the least amount of interest. Then we calculate the interest on each instalment you did pay. We charge the difference between these two amounts only if the difference is more than \$25.

Instalment interest is compounded daily at the prescribed interest rate. This rate can change every three months. To get the current interest rate, visit our Web site at www.cra.gc.ca/interestrates or call 1-800-959-8281.

If you realize during 2009 that you paid less than your required instalment payment, or that you did not pay it on time, you can reduce or eliminate an instalment interest charge by overpaying your next 2009 instalment payment or by paying it early.

Instalment penalty

You may also have to pay a **penalty** if your instalment payments are late or less than the required amount. We apply this penalty only if your instalment interest charges for 2009 are more than \$1,000.

To calculate the penalty, we determine which of the following amounts is **higher**:

- \$1,000; or
- one-quarter of the instalment interest that you would have had to pay if you had not made instalment payments for 2009.

Then, we subtract the higher amount from your actual instalment interest charges for 2009. Finally, we divide the difference by two and the result is your penalty.

Example

For 2009, John made instalment payments that were less than he should have paid. As a result, he has \$2,500 of actual instalment interest charges for 2009. If John had not made **any** instalment payments in 2009, his instalment interest charges would have been \$3,200. Since one-quarter of \$3,200 is \$800, we subtract \$1,000 (the **higher** amount) from \$2,500. The difference is \$1,500. Then, we divide \$1,500 by two. John's penalty is \$750.

Farming and fishing

You have to make one instalment payment by **December 31, 2009**, if:

- your main source of income in 2009 is self-employment income from farming or fishing; and
- in each of 2007, 2008, **and** 2009, your **net tax owing** (see page 5) is more than \$3,000.

Quebec residents – If you live in Quebec on December 31 of a year, use a limit of **\$1,800** instead of \$3,000 for that year.

At the end of November, we send instalment reminders to farmers and fishers who **may** have to pay tax by instalment. The no-calculation amount is equal to two-thirds of the total of your prior-year (2008) net tax owing plus any CPP contributions payable. Even if we send you an instalment reminder in 2009, you **do not** have to make an instalment payment for 2009 if your net tax owing for 2009 will be \$3,000 or less (\$1,800 or less for residents of Quebec).

If your 2009 income, deductions, and credits will be significantly different from the prior year, it may be better to calculate your instalment payment using the current-year option. If you choose this option, you have to calculate your instalment payments based on your estimated 2009 net tax owing and any CPP contributions payable. Use the chart on page 12 to help you calculate your total instalment amount due and pay two-thirds of this amount by December 31, 2009.

Be sure to read “Reducing your instalments” on page 13, “Making your instalment payments” on page 14, “Completing your tax return” on page 16, and “Interest and penalty charges” on page 17.

For more information

Contact us if, after reading this pamphlet, you would like to get forms or publications, or you need more help.

To get forms or publications, visit our Web site at www.cra.gc.ca/forms or call 1-800-959-2221.

For enquiries, visit our Web site at www.cra.gc.ca or call 1-800-959-8281.

My Account – is a secure, convenient, and time-saving way to access and manage your tax and benefit information online. For more information, visit **My Account** on our Web site at www.cra.gc.ca/myaccount or see Pamphlet RC4059, *My Account for individuals*.

T.I.P.S. (Tax Information Phone Service) – For personal and general tax information by telephone, use our automated service **T.I.P.S.** by calling 1-800-267-6999.

Teletypewriter (TTY) users – If you use a TTY because you have a hearing or speech impairment, an agent at our bilingual enquiry service (1-800-665-0354) can help you during regular and evening hours of service.

Your opinion counts

If you have any comments or suggestions that could help us improve our publications, we would like to hear from you. Please send your comments to:



Taxpayer Services Directorate
Canada Revenue Agency
750 Heron Road
Ottawa ON K1A 0L5