

# Paying Your Income Tax by Instalments

## Is this pamphlet for you?

This pamphlet is for individuals who are required to pay income tax by instalments when either no tax or not enough tax is deducted at source.

If you are blind or partially sighted, you can get our publications in braille, large print, etext, or MP3 by going to **[www.cra.gc.ca/alternate](http://www.cra.gc.ca/alternate)**. You can also get our publications and your personalized correspondence in these formats by calling **1-800-959-8281**.

## Table of contents

	Page
What are instalments? .....	4
Why do you have to pay tax by instalments?.....	4
Who has to pay by instalments?.....	4
When are your payments due? .....	5
What is an instalment reminder? .....	5
Calculating your payments .....	6
No-calculation option.....	6
Prior-year option.....	7
Current-year option.....	8
Did you only get an instalment reminder in August 2014? .....	9
Calculation chart for instalment payments .....	9
Reducing your instalments .....	11
Making your instalment payments .....	12
How and where do you make your instalment payments? .....	12
After you have made a payment .....	13
What is an instalment payment summary?.....	13
Did you move from Quebec in 2014? .....	13
Completing your income tax and benefit return.....	14
Interest and penalty charges .....	14
Instalment interest .....	14
Instalment penalty .....	15
Farming and fishing .....	15
Online services .....	16
My Account .....	16
Electronic payments .....	16
For more information .....	17
What if you need help? .....	17
Forms and publications.....	17
Electronic mailing lists .....	17
Tax Information Phone Service (TIPS).....	17
Teletypewriter (TTY) users.....	17
Our service complaint process.....	17
Your opinion counts .....	17

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

## Who has to pay by instalments?

You have to pay your income tax by instalments for 2014 if your **net tax owing** is more than \$3,000:

- in 2014; and
- in either 2013 or 2012.

**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 2014 is self-employment income from farming or fishing. For more information, see “Farming and fishing” on page 15.

**Net tax owing** – Generally, this is the amount you owe on your income tax and benefit return. The items used to calculate net tax owing are listed in the chart (line 14) on page 10.

## When are your payments due?

Your instalment payments for 2014 are due March 15, June 15, September 15, and December 15, 2014.

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 recognized by the CRA, go to [www.cra.gc.ca/duedates](http://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 make through your financial institution's online or telephone banking services are considered paid when your financial institution credits us with your payment.
- Payments you send by mail are considered paid on the date you mailed them.
- 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?

An instalment reminder is 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. For more information, see "Calculating your payments" on the next page.

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 going to [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

### Note

If the only reminder we send you in 2014 is for the September and December due dates, see "Did you only get an instalment reminder in August 2014?" on page 9.

Even if we send you an instalment reminder in 2014, you do **not** have to make instalment payments for 2014 if your net tax owing for 2014 will be \$3,000 or less (\$1,800 or less for residents of Quebec).

## Calculating your payments

If you have to pay by instalments, 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 financial situation, you will not overpay your tax during the year or have a large amount of tax to pay when you file your income tax and benefit return. **You do not have to tell us which option you choose, even if that option requires no payments.**

### Note

Instalment payments are calculated based on:

- your net tax owing;
- any Canada Pension Plan (CPP) contributions payable on self-employment and other earnings (see line 421 in the *General Income Tax and Benefit Guide*); and
- any voluntary employment insurance (EI) premiums payable on self-employment and other eligible earnings (see line 430 in the *General Income Tax and Benefit Guide*).

## 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 2014. 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, 2014, on tax information from your assessed income tax and benefit return for 2012. Each of these two instalments is equal to one-quarter of your 2012 net tax owing, any CPP contributions payable for 2012, and any voluntary EI premiums payable for 2012.
- For your September 15 and December 15, 2014, instalments, we subtract the total amount of your March and June 2014 instalment reminders from your 2013 net tax owing, any CPP contributions payable for 2013, and any voluntary EI premiums payable for 2013. We then divide the remaining amount equally between your September and December 2014 instalments.

If you use the no-calculation option and make the payments shown on the reminders by their 2014 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 2014.

### Example

Jake is self-employed and has to make instalment payments in 2014. His income increased slightly over the last two years, and he expects it will increase again in 2014. Jake also decided to pay voluntary EI premiums on his self-employed income for 2013. Jake's net tax owing and CPP contributions payable were \$6,000 for 2012, and his net tax owing, CPP contributions payable, and voluntary EI premiums payable were \$6,600 for 2013.

We calculate Jake's March and June instalment payments for 2014 each as one-quarter of his net tax owing and CPP contributions payable for 2012.

We calculate his September and December 2014 payments by subtracting the first two instalment payments that we calculated above from his net tax owing, CPP contributions payable, and voluntary EI premiums payable for 2013 and dividing the result by two.

Using the **no-calculation option**, Jake makes the four instalment payments shown on his 2014 reminders, as follows:

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

### Prior-year option

This option is best for you if your 2014 income, deductions, and credits will be similar to your 2013 amounts but significantly different from those in 2012.

If you choose this option, you have to calculate your instalment payments based on your prior-year (2013) net tax owing including any CPP contributions payable and any voluntary EI premiums payable. Use the chart on page 10 to help you calculate your total instalment amount due and pay one-quarter of this amount on each instalment due date.

#### Note

We provide the prior year payment amount on the August instalment reminder.

If you use the prior-year option and make the payments in full by their 2014 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 14.

### Example

Gayle has to pay her tax by instalments in 2014. She retired at the end of 2012 and her pension income this year will be close to what it was in 2013, but much less than her employment income was in 2012. Using her 2013 income tax and benefit return and the calculation chart on page 10, she calculates that her total instalment amount due is \$4,000.

Using the **prior-year option**, Gayle makes four instalment payments in 2014, based on her calculations, as follows:

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

### Current-year option

This option is best for you if your 2014 income, deductions, and credits will be significantly different from those in 2012 and 2013.

If you choose this option, you have to calculate your instalment payments based on your estimated current-year (2014) net tax owing, any CPP contributions payable, and any voluntary EI premiums. Use the chart on page 10 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 2014 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 14.

### Example

Jesse has to pay his tax by instalments in 2014. However, since Jesse's investment income decreased this year, he knows he will owe less tax in 2014, and as a result, he can make lower instalment payments than he did in 2012 and 2013. Using a 2013 income tax and benefit return, the calculation chart on page 10, and his 2014 income estimates, he calculates that his total instalment amount due will be approximately \$5,000.

Using the **current-year option**, Jesse makes four instalment payments in 2014, based on his calculations, as follows:

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

## Did you only get an instalment reminder in August 2014?

If you only got an instalment reminder for September and December 2014 and the reminder does **not** mention a March or June 2014 instalment payment due, follow the instructions below, depending on the option you decide to use.

- If you decide to use the **no-calculation option** (see page 6), 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 7), calculate your 2013 net tax owing and add any CPP contributions payable and any voluntary EI premiums 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 the previous page), estimate your current-year (2014) net tax owing and add any CPP contributions payable and any voluntary EI premiums 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 17) when you choose either the prior-year or current-year payment option (see pages 7 and 8).

### Note

Your CPP contributions and/or EI premiums are not used to calculate the amount of net tax owing. However, they must be added when calculating your total instalment amount due (see lines 15 and 16).

To complete the chart, see your notice of assessment or notice of reassessment, your prior-year income tax and benefit return, or your 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 income tax and benefit returns you may have completed to make your estimates.

### Calculation Chart

The line references are from your income tax and benefit return, notice of assessment, or notice of reassessment.

Net federal tax (line 420) .....	\$ _____	1
Old age security repayment (from line 422) .....	+ _____	2
Provincial or territorial tax (line 428) .....	+ _____	3
Yukon First Nations tax (line 432) .....	+ _____	4
<b>Total payable (add lines 1 to 4) .....</b>	<b>= _____</b>	<b>5</b>
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
<b>Total credits (add lines 6 to 12) .....</b>	<b>= _____</b>	<b>13</b>
<b>Net tax owing (line 5 minus line 13) .....</b>	<b>= _____</b>	<b>14</b>
Canada Pension Plan contributions payable on self-employment and other earnings (line 421) .....	+ _____	15
Employment insurance premiums payable on self-employment and other eligible earnings (line 430) .....	+ _____	16
<b>Total instalment amounts due (add lines 14 to 16) .....</b>	<b>= \$ _____</b>	<b>17</b>

## 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](http://www.servicecanada.gc.ca) or at any Service Canada office. For the address of these offices, see the Service Canada Web site or the listings in the government section of your telephone book. You can also get the form by calling 1-800-277-9914.

### Note

For the Quebec Pension Plan (QPP), visit the QPP Web site at [www.rrq.gouv.qc.ca](http://www.rrq.gouv.qc.ca) or call 1-800-463-5185.

To have tax withheld from employment income or for pension benefits from an employer-sponsored pension plan, give a completed Form TD1, *2014 Personal Tax Credits Return*, to your employer or pension plan administrator. To get this form, see “Forms and publications” on page 17.

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 2014. His net tax owing has been \$3,500 for several years, and he expects it will stay the same in 2014. In January 2014, Hugh gave his pension plan administrator a completed Form TD1 that stated he wants an extra \$250 withheld each month from his pension income.

Hugh now estimates his net tax owing will be \$500 for 2014. Based on his estimate, he does not have to make instalment payments in 2014 because his net tax owing will not be over \$3,000 for 2014. Hugh would disregard the instalment reminders he gets for 2014.

## 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*, unless you pay your instalments through pre-authorized debit. Form INNS3 includes two tear-off voucher sections. You can order additional vouchers online through My Account, or by phone through our automated TIPS line at 1-800-267-6999.

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

**Electronically** – You may be able to pay electronically through your financial institution’s online or telephone banking services and you may be able to schedule post-dated payments. Go to [www.cra.gc.ca/payments](http://www.cra.gc.ca/payments) or contact your financial institution to see which services they offer.

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

**My Payment** – You can choose this self-service payment option that allows individuals and businesses to make payments online, using the Canada Revenue Agency’s Web site, from an account at a participating Canadian financial institution. For more information, go to [www.cra.gc.ca/mypayment](http://www.cra.gc.ca/mypayment).

**By pre-authorized debits** – You can have your instalment payments debited from your bank account. To set up a pre-authorized debit at your convenience, go to [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

### Notes

Your pre-authorized debit will remain in effect until you cancel it, even if the instalments are paid in full.

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

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. Keep your cancelled cheque or bank receipt as proof of your instalment payment.

## What is an instalment payment summary?

An instalment payment summary is a record of your instalment payments that you have made to date. Your instalment payments are shown on the back of Form INNS1, *Instalment Reminder*, issued in February and in August, and on Form INNS2, *Instalment Payment Summary*, issued in February. You can also see the instalment payments you have made by going to [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

If your summary shows payments that you did not make or that were not intended as an instalment payment, call **1-800-959-8281**.

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 refund of an overpayment of your instalments, send a letter to your tax centre or call **1-800-959-8281**. We will review the matter on a case-by-case basis.

## Did you move from Quebec in 2014?

If you made instalment payments to Revenu Québec for 2014, 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 or territorial tax in your new province or territory of residence.

## Completing your income tax and benefit return

In February 2015, you will be able to see the total of your instalment payments for 2014 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 2014 income tax and benefit return.** If you made an instalment payment for 2014 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, 2015. If the instalments are more than the total tax you owe, we will send you a refund when we assess your 2014 income tax and benefit 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 income tax and benefit return requesting the transfer. We will consider such a payment to have been received on the date that we assess your income tax and benefit return.

## Interest and penalty charges

Any instalment interest and penalty charges that apply will show on your 2014 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 2014 that shows an amount to pay;
- you are required to make instalment payments in 2014 (see “Who has to pay by instalments?” on page 4); and
- you did not make instalment payments, or you made payments that were 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 up to the balance due date. Then we calculate the interest on each instalment you did pay for the year, starting from the later of the date the payment was made or January 1 up to the balance due date. 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, go to [www.cra.gc.ca/interestrates](http://www.cra.gc.ca/interestrates) or call **1-800-959-8281**.

If you realize during 2014 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 2014 instalment payment or by paying it early. Credit interest is earned on early or excess instalment payments made between January 1 and the balance due date for the purpose of offsetting any instalment interest that we may charge in the same tax year. This credit interest is not refundable, and it cannot be applied to an amount owing. Required instalment amounts are not adjusted for any specified future tax consequence, such as the claiming of a loss carry back.

## Instalment penalty

You may 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 2014 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 2014.

Then, we subtract the higher amount from your actual instalment interest charges for 2014. Finally, we divide the difference by two and the result is your penalty.

### Example

For 2014, 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 2014. If John had not made **any** instalment payments in 2014, 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 would be \$750.

## Farming and fishing

You have to make one instalment payment by **December 31, 2014**, if:

- your main source of income in 2014 is self-employment income from farming or fishing; and
- in each of 2012, 2013, and 2014, your **net tax owing** (see page 4) 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 (2013) net tax owing plus any CPP contributions payable and any voluntary EI premiums payable. Even if we send you an instalment reminder in 2014, you **do not** have to make an instalment payment for 2014 if your net tax owing for 2014 will be \$3,000 or less (\$1,800 or less for residents of Quebec).

If your 2014 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 2014 net tax owing, any CPP contributions payable, and any voluntary EI premiums payable. Use the chart on page 10 to help you calculate your total instalment amount due and pay two-thirds of this amount by December 31, 2014.

Be sure to read “Reducing your instalments” on page 11, “Making your instalment payments” on page 12, and “Completing your income tax and benefit return” and “Interest and penalty charges” on page 14.

## Online services

### My Account

Using the CRA's My Account service is a fast, easy, and secure way to access and manage your tax and benefit information online, seven days a week. If you are not registered with My Account but need information right away, use Quick Access to get fast, easy, and secure access to some of your information.

You can use either your CRA user ID and password or your online banking user ID and password to log in to My Account.

For more information, go to [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

### Electronic payments

Make your payment online using the CRA's My Payment service at [www.cra.gc.ca/mypayment](http://www.cra.gc.ca/mypayment) or using your financial institution's telephone or Internet banking services. For more information, go to [www.cra.gc.ca/payments](http://www.cra.gc.ca/payments) or contact your financial institution.



## For more information

### What if you need help?

If you need more information after reading this pamphlet, go to [www.cra.gc.ca/instalments](http://www.cra.gc.ca/instalments) or call 1-800-959-8281.

### Forms and publications

To get our forms and publications, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or call 1-800-959-8281.

### Electronic mailing lists

We can notify you by email when new information on a subject of interest to you is available on our Web site. To subscribe to our electronic mailing lists, go to [www.cra.gc.ca/lists](http://www.cra.gc.ca/lists).

### Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling 1-800-267-6999.

### Teletypewriter (TTY) users

TTY users can call 1-800-665-0354 for bilingual assistance during regular business hours.

### Our service complaint process

If you are not satisfied with the **service** that you have received, contact the CRA employee you have been dealing with or call the telephone number that you were given. If you are not pleased with the way your concerns are addressed, you can ask to discuss the matter with the employee's supervisor.

If the matter is not settled, you can then file a service complaint by completing Form RC193, *Service-Related Complaint*. If you are still not satisfied, you can file a complaint with the Office of the Taxpayers' Ombudsman.

For more information, go to [www.cra.gc.ca/complaints](http://www.cra.gc.ca/complaints) or see Booklet RC4420, *Information on CRA – Service Complaints*.

### Your opinion counts

If you have comments or suggestions that could help us improve our publications, send them to:

**Taxpayer Services Directorate**  
**Canada Revenue Agency**  
395 Terminal Avenue  
Ottawa ON K1A 0L5