



Canada Revenue  
Agency

Agence du revenu  
du Canada

# Paying Your Income Tax by Instalments

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### **Your opinion counts!**

We review this pamphlet each year. If you have any comments or suggestions that would help us improve it, we would like to hear from you.

Please send your comments to:



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

La version française de cette publication est intitulée  
*Le paiement de l'impôt par acomptes provisionnels.*

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## What are instalments?

**I**nstalments are periodic payments of income tax that individuals have to pay the Canada Revenue Agency (CRA) to cover tax they would otherwise have to pay on April 30 of the following year.

Most people pay their tax by having tax withheld from their income throughout the year. However, if you receive income that has no tax withheld or does not have enough tax withheld, 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?

**Y**ou have to pay your income tax by instalments for 2006 if your **net tax owing** is more than \$2,000:

- in 2006; and
- in **either** 2005 or 2004.

**Quebec resident** – If you live in Quebec on December 31 of 2004, 2005, or 2006, use a limit of **\$1,200** for that year.

### Note

If your main source of income in 2006 is self-employment income from farming or fishing, different rules apply. For details, see the section called “Farming and fishing” on page 17.

**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 11.

## When are your payments due?

Your instalment payments for 2006 are due March 15, June 15, September 15, and December 15, 2006.

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 due dates and holidays, visit our Web site at [www.cra.gc.ca/duedates](http://www.cra.gc.ca/duedates) or call us.

### Note

If an individual who has to pay tax by instalments dies during the year, no instalment payments due on or after the date of death have to be paid.

## Instalment reminders

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 see your instalment reminders on our online service called My Account at [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

### Note

If the only reminder we send you in 2006 is for the September and December due dates, also see the section called "Did you only get an instalment reminder for September and December 2006?" on page 10.

Even if we send you an instalment reminder in 2006, you **do not** have to make instalment payments for 2006 if your net tax owing for 2006 will be \$2,000 or less (\$1,200 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 return. You do not have to tell us which option you choose. Instalment reminders that we send to 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 2006. 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, 2006, on tax information from your assessed return for 2004. Each of these two instalments is equal to one-quarter of your 2004 net tax owing and any CPP contributions payable.

- For your September 15 and December 15, 2006, instalments, we subtract the total amount of your March and June 2006 instalment reminders from your 2005 net tax owing and any CPP contributions payable. We then divide the remaining amount equally between your September 15 and December 15, 2006, instalments.

If you use the no-calculation option and make the payments shown on the reminders by their 2006 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 2006.

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### Example

Jake is self-employed and has to make instalment payments in 2006. His income increased slightly over the last two years, and he expects the same for 2006. Jake's net tax owing and CPP contributions payable were \$6,000 for 2004, and \$6,600 for 2005. He will use the **no-calculation** option.

Jake's first two instalment payments for 2006 are each one-quarter of his net tax owing and CPP contributions payable for 2004. We calculate his last two payments by subtracting the first two instalment payments that we calculated from his net tax owing and CPP contributions payable for 2005.

Jakes' instalment reminders for 2006 show:

	<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>\$6,600</b>

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## Prior-year option

This option is best for you if your 2006 total instalment amount due will be similar to your 2005 amount but much more or much less than it was in 2004.

If you choose this option, you have to calculate your instalment payments based on your prior-year (2005) net tax owing and any CPP contributions payable. You can use the chart on page 11 to calculate your total instalment amount due using 2005 amounts. Then, on each instalment due date, you pay one-quarter of the calculated amount.

If you use the prior-year option and make the payments in full by their 2006 due dates, we will not charge instalment interest or a penalty unless the total instalment amount due you have calculated is too low. For details, read the “Interest and penalty charges” section on page 15.

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### Example

Gayle has to pay her tax by instalments in 2006. She retired at the end of 2004 and her pension income this year will be close to what it was in 2005, but much less than her employment income was in 2004. Using her 2005 return and the calculation chart on page 11, she calculates that her total instalment amount due for 2005 is \$4,000.

Using the **prior-year option**, Gayle makes four instalment payments in 2006, 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>\$4,000</b>

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## Current-year option

This option is best for you if you expect your total instalment amount due for 2006 to be more or less than it was for 2004 and 2005.

If you choose this option, you have to calculate your instalment payments based on your estimated current-year (2006) net tax owing and any CPP contributions payable. You can use the chart on page 11 to calculate your 2006 total instalment amount due. Then, on each instalment due date, you pay one-quarter of the calculated amount.

If you use the current-year option and make the payments in full by their 2006 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 details, see the "Interest and penalty charges" section on page 15.

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### Example

Jesse has to pay his tax by instalments in 2006. However, since Jesse's investment income decreased this year, he knows he will owe less tax in 2006, and as a result, he can make lower instalment payments than he did in 2004 and 2005. Using a 2005 return, the calculation chart on page 11, and his 2006 income estimates, he calculates that his total instalment amount due for 2006 will be \$5,000.

Using the **current-year option**, Jesse makes four instalment payments in 2006, based on his calculations, as follows:

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

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## Did you only get an instalment reminder for September and December 2006?

If you 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 use the **prior-year option** (see page 8), calculate your 2005 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 use the **current-year option** (see page 9), estimate your current-year (2006) 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 reduce your September 15 payment by the amount of instalments you have already made for the year.

## Calculation chart for instalment payments

The chart on the next page lists the items used to calculate **net tax owing** (line 13). It is also used to determine your **total instalment amount due** (line 15) when you choose either the prior-year or current-year payment option (see pages 8 and 9).

To complete the chart, refer to your *Notice of Assessment*, *Notice of Reassessment*, or a 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**

When using the current-year option, do not send us any return you completed to make your estimates.

<b>Calculation Chart</b>	
<b>Note:</b> The line references are from the return or <i>Notice of Assessment</i> or <i>Notice of Reassessment</i> .	
Net federal tax (line 420) .....	\$ 1
Old Age Security (OAS) repayment (from line 422) .....	+ 2
Provincial or territorial tax (line 428) .....	+ 3
First Nations tax (line 432).....	+ 4
Total payable ( <b>add</b> 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
Refund of investment tax credit (line 454) .....	+ 9
Part XII.2 trust tax credit (line 456) .....	+ 10
Provincial or territorial tax credits (line 479).....	+ 11
Total credits ( <b>add</b> lines 6 to 11).....	= 12
<b>Net tax owing</b> (line 5 <b>minus</b> line 12) .....	= 13
CPP contributions payable (line 421).....	+ 14
<b>Total instalment amount due</b> (lines 13 <b>plus</b> line 14).....	= \$ 15

## Reducing your net tax owing

The amount of your instalment payments may be reduced, 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 do this for Old Age Security (OAS) or Canada Pension Plan (CPP) benefits, send a completed Form ISP3520, *Request for Income Tax Deductions*, to the Income Security Programs office of Social Development Canada (SDC). You can get the form on the SDC Web site at [www.sdc.gc.ca](http://www.sdc.gc.ca) or at your local SDC office. For the address and telephone number of your local office, see the SDC Web site or the listings in the government section of your telephone book.

To do this for employment income or for pension benefits from an employer-sponsored pension plan, give a completed Form TD1, *2006 Personal Tax Credits Return*, to your employer or pension plan administrator.

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

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### Example

Hugh, a resident of Alberta, pays his tax by instalments, but he decides to have additional tax withheld from his income in 2006. His net tax owing has been \$3,500 for several years, and he expects it will remain the same in 2006. Starting in January 2006, Hugh has an additional \$250 withheld each month from his pension income.

Hugh now estimates his net tax owing will be \$500 for 2006. Based on his estimate, he does not have to make instalment payments in 2006 because his net tax owing will not be over \$2,000 for 2006. Hugh would disregard the instalment reminders he gets for 2006.

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# Making your instalment payment

## How and where do you make your payments?

Each instalment reminder package we send includes two copies of Form INNS3, *Instalment Remittance Form* (call **1-800-959-8281** if you need more copies). You have several options to make your payments:

- You may be able to pay electronically through your financial institution's Internet or telephone banking services. Visit our Web site at **[www.cra.gc.ca/electronicpayments](http://www.cra.gc.ca/electronicpayments)** or contact your financial institution to see which services they offer.
- You can have your instalment payments debited from your account by sending a completed Form T1162A, *Pre-Authorized Payment Plan (Personal Quarterly Instalment Payments)*, to:
  - Canada Revenue Agency  
P.O. Box 9659, Station T  
Ottawa ON K1G 6L7
- You can make your payment free of charge at your branch of a Canadian chartered bank, caisse populaire, or credit union. Give Form INNS3 to the teller, who will detach and keep the payment section of the remittance form, and who will stamp and return the rest to you as a receipt.
- You can send a cheque or money order (we accept post-dated cheques) payable to the Receiver General, and a completed Form INNS3, to:

- Canada Revenue Agency  
875 Heron Road  
Ottawa ON K1A 1B1

Please write your social insurance number (SIN) on the back of your cheque or money order to help us

process your payment correctly. Your SIN is the authorized identification number for income tax purposes under Section 237 of the *Income Tax Act* and is used for certain federal programs.

## 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 a record of the instalment payments you have made to your account with our online service called My Account at [www.cra.gc.ca/myaccount](http://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.

**Did you move from Quebec in 2006?** If you made instalment payments to Revenu Québec for 2006, you have to notify them of your change of address and ask for a refund of the amounts you paid. Then, send that refund to us along with a letter from Revenu Québec that provides the dates those payments were made.

## Filing your return

**I**n February 2007, you will be able to see the total of your instalment payments for 2006 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 2006 return.** If you made an instalment payment for 2006 that is not shown on Form INNS1 or Form INNS2, include that amount on line 476.

Any balance of tax you still owe is due by April 30, 2007. If the instalments are more than the total tax you owe, we will send you a refund when we assess your 2006 return.

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

## Interest and penalty charges

Any instalment interest and penalty charges that apply will show on your 2006 *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 2006 that shows an amount to pay;
- you have to make instalment payments in 2006; **and**
- you choose not to 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 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](http://www.cra.gc.ca/interestrates) or call 1-800-959-8281.

If you realize during 2006 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 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 2006 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 2006.

Then, we subtract the higher amount from your actual instalment interest charges for 2006. Finally, we divide the difference by two and the result is your penalty.

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### Example

For 2006, 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 2006. If John had not made **any** instalment payments in 2006, 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.

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## Farming and fishing

**Y**ou have to make one instalment payment by **December 31, 2006**, if:

- your main source of income in 2006 is self-employment income from farming or fishing; and
- in each of 2004, 2005, **and** 2006, your **net tax owing** (see page 4 for description) is more than \$2,000.

However, if you lived in Quebec on December 31 of 2004 or 2005, or you anticipate living in Quebec on December 31, 2006, your net tax owing for that year must be more than **\$1,200**.

In November, we send instalment reminders to farmers and fishers who **may** have to pay tax by instalments. The no-calculation amount is equal to two-thirds of the total of your prior-year (**2005**) net tax owing plus any CPP contributions payable. Even if we send you an instalment reminder in 2006, you **do not** have to make instalment payments for 2006 if your net tax owing for 2006 will be \$2,000 or less (\$1,200 or less for residents of Quebec).

If your total instalment amount due in 2006 will be more or less than it was in 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 2006 net tax owing and any CPP contributions payable. Use the chart on page 11 to calculate your 2006 total instalment amount due and pay two-thirds of the total on December 31, 2006.

Be sure to read “Reducing your net tax owing” on page 12, “Making your instalment payments” on page 13, “Filing your return” on page 14, and “Interest and penalty charges” on page 15.

## Do you need more information?

Contact us if, after reading this pamphlet, you would like to get forms or publications or you need help. To get forms or publications, visit our Web site at [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms), or call 1-800-959-2221. For enquiries, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca), or call 1-800-959-8281.

**My Account** – My Account is an online service that gives you the convenience and flexibility of managing your personal income tax, Canada Child Tax Benefit (CCTB), and GST/HST credit accounts on a secure Web site. My Account allows you to get information about your tax refund or balance owing, your registered retirement savings plan account, **your instalment account**, your addresses, and your telephone numbers. You can also use My Account to change your return, addresses, and telephone numbers, or disagree with your notice of assessment or determination. For more information about My Account, visit our Web site at [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

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

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

# ***Convenient electronic services for individuals***



Join the millions of people who, each year, trust the reliability and speed of the electronic services that the Canada Revenue Agency (CRA) offers. Simply choose the filing option that best suits your needs, and see how fast you get your refund – even faster with direct deposit. At any time during the year, visit the CRA Web site at [www.cra.gc.ca](http://www.cra.gc.ca) to view or change your personal income tax information.

## ***File your own return...***

### **NETFILE**

- File your tax return over the Internet using NETFILE-certified software or a NETFILE-certified Web application. You can get a NETFILE access code online. For more information, visit: [www.netfile.gc.ca](http://www.netfile.gc.ca).

### **TELEFILE**

- File your tax return by touch-tone telephone. For more information, call 1-800-959-8281, or visit: [www.cra.gc.ca/telefile](http://www.cra.gc.ca/telefile).

## ***Use a tax return preparation service...***

### **EFILE**

- Choose a tax professional who will file your tax return electronically using our EFILE service. For more information, visit: [www.cra.gc.ca/efile](http://www.cra.gc.ca/efile).

## ***View or change your tax information...***

### **My Account**

Check your refund, account balance, Canada Child Tax Benefit, GST/HST credit, RRSP contribution limit, and much more on My Account. You can also change your return, change your address or register a formal dispute. To use My Account, you need to get a Government of Canada user ID and password and the CRA will mail you an activation code. For more information, visit: [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

## ***Make your payment online...***

### **Online payment**

You can make your payment through your financial institution's Internet or telephone banking services or by taking your remittance voucher directly to your branch. Try it! It's as easy as paying any other bill. For more information, visit: [www.cra.gc.ca/electronicpayments](http://www.cra.gc.ca/electronicpayments).

