



## CRA Penalty: Why Should You File 2020 Income Tax Returns Before April 30?

### Description

The Canada Revenue Agency (CRA) is doing every possible thing to encourage Canadians to file their income tax returns on time. After spending billions of dollars on the stimulus package, the agency needs the tax money like never before to maintain a balance. The 2020 income tax-filing deadline is April 30, and any delays will only invite penalties. Don't worry if you don't have enough money to pay all your tax dues. The CRA has arranged some relief for you.

### Why should you file your income tax returns?

There are three main steps to [filing](#) income tax returns:

- So you can collect all necessary documents and calculate your taxable income, including investment income and COVID-19 benefits;
- So you can deduct the necessary tax credits and deductions that apply to you; and
- To update your personal details, submit your tax returns, and pay your taxes online or in person.

The last step is what many people are concerned about, as they don't have enough cash to pay their tax dues. As a general rule, the CRA charges interest on your tax dues if you miss the deadline. It also charges a penalty if you do not file your income tax returns.

The CRA uses these tools (penalty and interest) to encourage Canadians to file and pay their taxes on time. It then assesses your returns and personal data to calculate and pay various cash benefits like Goods and Service Tax (GST) refund. If you have any tax dues, the CRA deducts those from your cash benefits.

For instance, Mary filed her 2018 returns before April 30 and had a tax bill of \$500. Her age, marital status, income, and number of children qualify her for a \$400 GST refund. The CRA did not give her the GST refund and instead reduced her tax dues to \$100. So, Mary benefits indirectly, as she has to pay \$400 less in income tax.

But in the light of the pandemic, the CRA has altered this method for the 2020 tax season.

## The CRA introduces relief for filing 2020 income tax returns

The second wave of the pandemic slowed the economic recovery, forcing the government to [increase](#) the Canada Recovery Benefits (CRB) limit to 38 weeks. As the tax season is here, the CRA also introduced several reliefs in filing income tax. Instead of extending the tax-filing deadline like last year, it has made the following changes:

- It has waived off the interest charged on 2020 tax dues till April 30, 2022.
- It has exempted cash benefits like GST refund and Canada Child Benefit (CCB) from tax adjustments.

However, the CRA will still impose a penalty of 5% on your tax dues if you delay filing your 2020 income tax returns. Over and above this 5%, a 1% penalty will apply for every month of delay up to 12 months. And after 12 months, which is April 2022, the CRA will also charge interest on any outstanding tax dues.

Continuing with the above example, Mary files her 2020 tax returns in October (a six-month delay), and her tax bill comes to \$1,000. The CRA will impose a penalty of 11% (5%+6%) on \$1,000, which comes to \$110.

Long story short, file your returns before the deadline and avoid penalties.

## Pay your tax bill from CRA benefits

The CRA is giving you one year to pay your taxes without charging interest. Use this time to create a tax fund in your Tax-Free Savings Account (TFSA) and invest the CCB and GST refund. If you invest \$1,000 in **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)), which has a 6% dividend yield, you will have \$60 by April 2022.

TC energy earns money by transmitting and storing natural gas. Given that the energy market is recovering from the pandemic crisis, TC Energy stock surged 10.9% year to date. There is a possibility that the stock could return to its pre-pandemic level of \$72 in a year, representing a 24% upside. This means your \$1,000 investment can earn you \$240 in capital appreciation and \$60 in dividend income. As it will be a TFSA income, the CRA won't tax it. A \$300 amount can help you reduce your tax burden partially.

### CATEGORY

1. Dividend Stocks
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### TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

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1. Business Insider
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