



ATTENTION Taxpayers: Avoid CRA's 5% Penalty on Your 2020 Income Tax Bill

Description

This tax season, the Canada Revenue Agency (CRA) has introduced many benefits for Canadians. If you think the \$2,000/month stimulus checks you received were the only benefit, then you should read about the interest relief. The CRA has relaxed interest on your 2020 income tax bill for a year. You can submit your returns without worrying about paying your taxes in full. But if you don't submit your returns, the CRA will impose a penalty on your tax bill.

The CRA's 5% penalty stays

For the 2019 tax year, the CRA extended the deadline to September 2020 in light of the COVID-19 pandemic. However, for the 2020 tax year, it is not extending the deadline but giving an interest relief of one year. Until last year, the CRA would charge interest if you did not pay your outstanding taxes by the due date. While it has removed the interest component, the late-filing penalty stays.

As a standard procedure, the CRA [charges](#) a penalty of 5% on your unpaid tax bill if you do not file your income tax returns by the deadline. For the 2020 tax year, the CRA has set the deadline as April 30, 2021, for filing your returns. If you do not file them even one month after the deadline, then the CRA will charge an additional 1% per month, up to a maximum of 12 months.

All you need to do to avoid the late filing penalty is file your income tax returns before April 30. You don't need to pay your complete tax bill by April 30, 2021. For clearing your unpaid 2020 tax bill, you have time until April 30, 2022. In case you do not clear your tax dues even by April 30, 2022, the CRA will start charging interest on the outstanding amount.

Benefits of filing taxes on time

There are more merits of filing taxes on time. Firstly, you avoid the late filing penalty. Secondly, you get many cash benefits the CRA offers its taxpayers. Some of them are the Goods and Services Tax(GST) refund and the Canada Child Benefit (CCB). For 2021, you can get up to \$443 in the [GST refund](#) and up to \$8,000 in the CCB.

Lastly, the CRA gives you retroactive benefits for up three years. In 2020, the CRA gave an emergency GST of up to \$443. You need to file your income tax returns for 2018 to get this refund. The CRA uses your 2018 taxable income to calculate the refund amount. Also, ensure that your personal details are updated in CRA's records. These personal details include your age, taxable income, marital status, number of children, postal address, and account details.

Plan your taxes to stay on CRA schedule

You can make the most of the CRA benefits by planning your taxes from the start of the tax year instead of 10 days before the April 30 deadline. Read about the various tax benefits the CRA offers and whether they apply to you. Arrange all your documents in a file and also keep a digital copy of them for backup.

Allocate a portion of your Tax-Free Savings Account (TFSA) contribution towards a tax fund. Every year you can invest \$500-\$700 in a dividend stock like **BCE** ([TSX:BCE](#))([NYSE:BCE](#)). In the last decade, the telecommunications firm increased its dividend per share at a compounded annual growth rate (CAGR) of 6.4%. It currently has an average dividend yield of 5.15%.

If you invest \$500 in BCE in 2021, you will get a dividend of over \$25 by the end of the year. If you invest another \$500 in the stock in 2022, your total dividend by the end of 2022 will surpass \$75. If the company increases its dividend at a 6% average annual rate, your dividend income will grow along with your tax bill, thus relieving the tax burden.

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Author

pujatayal

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