Canada Revenue Agency: Don’t Forget The Interest and Late Filing Penalty!

Description

The tax filing deadline is now right around the corner, and even though we are so close to it, there is some speculation that it might be moved. The reason would be the third wave of the pandemic that is well on its way to becoming the harshest one yet. The new case numbers have already spiked beyond the last wave.

The province of Ontario is facing the worst of what the pandemic has to offer, and it is threatening to overload the provincial healthcare system.

Even if there is a slim possibility that the CRA might move the tax filing deadline again like it did last year, banking on it when you are this close to the deadline might not be prudent. If you haven’t filed yet, it would be a good idea to get a refresher on the late filing penalty.

Late filing penalty and interest

If you haven’t filed your 2020 taxes by April 30, you will need to pay 5% upfront, plus 1% for every month between April and when you finally file your taxes. It will be worse if you have already been penalized for not filing your taxes for the last three years (2017, 2018, and 2019). The penalty will simply double: 10% right away and 2% for each subsequent month that you delay filing your taxes.

Then there is the interest. If you have a balance on your 2020 taxes, the CRA will start charging compounded daily interest on the leftover balance, starting with the month of May. The tax rate is different for different balances and might change every quarter.

Save yourself the trouble

Not getting penalized is incentive enough to file your taxes as early as possible. Plus, the more time you have, the more tax breaks and deductions you might be able to find in order to reduce your tax burden. Whatever you can save from the CRA, you can invest in your future. Consider buying a dividend aristocrat like **Exchange Income Fund** (TSX:EIF) for a small passive income.

The decade-old Dividend Aristocrat is offering a juicy 5.8% yield. Even if you invest $3,000 in the company, it can earn you about $174 a year in dividends. The company proved the stability of its dividends in 2020 when it didn't slash its payouts, even it was going through one of the worst financial years in recent history.

EIF's business is acquisitions, and most of its underlying businesses are related to air travel, which happened to be one of the worst-performing industries last year. The stock fell over 60% at its worst, and it's still not fully recovered. The revenues took a serious dip as well, but just the stock itself, they are on their way to recovery.

Foolish takeaway

If you haven't filed your tax returns yet and you are waiting for the CRA to extend the deadlines again, don't. It's a long shot, and if it doesn't pay off, you might have to pick up a hefty penalty. If you are delaying because you are short on funds, then getting penalized will just make the situation worse for you.

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2. Investing

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