

Taxes

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Taxes don't just happen once in April. They happen all year. And if you're looking to take

control of their finances, planning for and figuring out your taxes should be at the top of your list. For most Canadians, taxes are their biggest annual expense, more than food, transportation, and even mortgage and rent. That's why it's very important to know the ins and outs of your income taxes. When you do, you can find ways to cut your tax bill, beef up your refund, or reduce what you owe. But don't worry. You don't have to read pages and pages of tax code to master your own taxes. We aim to help you understand the essentials without bogging you down with jargon or numbers.

How do income taxes work in Canada?

You pay income taxes based on your taxable income, and the more taxable income you earn, the more taxes you'll pay. Your taxable income slots you into a specific tax bracket, and every tax bracket has a corresponding tax rate. The tax rate of that bracket multiplied by your taxable income gives you the total taxes you owe.

It gets more complicated than that, of course (enter deductions and credits). But that, in a nutshell, is how the Canadian government calculates your income taxes.

Who pays income taxes in Canada?

Easy. If you earn income, you'll pay income taxes.

When is the deadline for filing taxes in Canada?

Every year, Canadians have to file their taxes before or on April 30. If the 30th falls on a weekend, you get a little break — the deadline will be on the following Monday. For self-employed or freelancing Canadians, you have until June 15th to file your tax return, though you still have to pay what you owe on April 30.

What's the difference between tax deductions and tax credits?

Tax deductions and tax credits both reduce how much income tax you pay, but they do it in different ways. Tax deductions lower your taxable income, that is, the total income you earn that the CRA can legally tax. Tax credits, on the other hand, are applied to the total taxes you owe.

How can you reduce your income taxes?

1. File on time

This may seem like a no-brainer, but you'd be surprised how many Canadians incur penalties and late fees simply because they don't file on time. Late-filers pay a 5% late-filing penalty for missing the April 30th deadline, plus an additional 1% for every month after (up to 12 months). And if you owe taxes, the CRA will charge interest on what you owe. You can save yourself a lot of money (and hassle) simply by filing your taxes ahead of schedule.

2. Get every deduction and tax credit

When it comes to lowering your tax bill, deductions and credit are your bread and butter. Familiarize yourself with the most common deductions, and seek help from a CPA if your tax situation is extremely complicated.

3. Take advantage of tax-sheltered accounts

Deductions aren't the only way to reduce your taxable income. You can cut it simply by contributing to a [Registered Retirement Savings Plan \(RRSP\)](#). Though you have a limit on how much you can contribute (18% of your earned income), you can get a huge tax break, not to mention save for your retirement, by putting money in this tax-sheltered account.

4. Consider amending previous tax returns

Lastly, keep in mind you can modify previous tax returns up to ten years back. So, if you missed deductions or credits on tax returns you've already filed, you can still adjust them to get a proper refund.

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