



Canada Revenue
Agency

Agence du revenu
du Canada

Canada Revenue Agency's Collections Policies

Individual Income Tax (T1)

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This pamphlet outlines individual tax debtors' rights and obligations when they have personal taxes owing to the Government of Canada. For more detailed information on legislation administered by the Canada Revenue Agency (CRA) and its collections policies, see Information Circular IC98-1R3, *Collections Policies*, by accessing our Web site at www.cra.gc.ca.

Note

When dealing with unremitted trust funds (that is: GST/HST, payroll deductions or Air Travellers Security Charges) that persons owe, the CRA's policies vary somewhat from those outlined in this pamphlet.

Your Obligation as a Tax Debtor

Under the *Income Tax Act*, every individual who has to pay tax for a calendar year must, by April 30 of the following year:

- file an income tax return; and
- pay any outstanding balance owing.

Self-employed individuals must file by June 15 of the following year.

Please note: Self-employed individuals who have a balance owing also have to pay their outstanding balance **on or before April 30** of the following year. The balance due date is the same for both self-employed and individuals.

The Canadian income tax administration is a self-assessment system. Under this system, taxpayers must file their returns and voluntarily report all income and expenses, and calculate any amounts they may owe.

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Once you have filed your income tax return and it has been processed, the CRA will send you a notice of assessment which will explain the details of your assessment, indicate the refund amount or the amount you owe and the requirements you must follow to pay this amount. **The CRA charges interest at a prescribed rate on any unpaid balance and compounds the interest on a daily basis.**

Our Collection Procedures

Payment in Full

Most tax debtors whose assessments result in a balance owing pay these balances promptly with no intervention on the part of the CRA. However, to reinforce the fairness and equity of the self-assessment system for those tax debtors who pay their taxes on time, the CRA will take a firm and efficient approach when collecting outstanding accounts from tax debtors who do not pay their taxes. The CRA requires that these amounts be paid and makes all reasonable efforts to ensure that they are. In most cases, if balances are not paid within 30 days of the date a notice of assessment/reassessment is issued, a second request for the balance owing will be made either by mail or by telephone.

If your balance remains outstanding and you have not been in contact with us to discuss payment of your debt, we may send you a final letter. The letter will notify you that if you do not make full payment or other satisfactory arrangements within 90 days after the notice of assessment/reassessment, we may take legal action such as garnisheeing your income (that is: we may intercept funds payable to you) or initiate other legal action (that is: directing the sheriff to seize and sell your assets). Interest charges will continue to accumulate on any unpaid balances.

Arrangements to Pay

We will accept payment arrangements when you have exhausted all reasonable possibilities of obtaining the necessary funds by borrowing or

re-arranging your financial affairs. If you cannot pay the balance in full, you should contact the Revenue Collections Division at your tax services office to discuss a mutually satisfactory payment arrangement based on your ability to pay. We will require evidence from you comprised of full income disclosure, living expenses, and assets and liabilities which will be verified before we accept any proposed payment arrangement.

Managerial Review of Decision

Should you not agree with the decision made by a CRA employee, you have the right to discuss the matter with the employee's supervisor. The employee will provide you with the supervisor's name and telephone number if requested.

Legal Action

If the previous steps have not resulted in a payment solution, legal action could follow 90 days after the notice of assessment/reassessment. Once a garnishee or other legal action is started, it will not usually be withdrawn unless you settle the debt by paying the full balance or providing evidence that the action is creating undue financial hardship. We will notify you by mail of the garnishment action.

Inter-departmental Set-Off

If you are entitled to a payment from any other government department (for example: Canada Pension Plan) we may request the other government department to retain, by way of deduction or set-off, the payment and apply it against your income tax debt.

Offset of Refund

If you are entitled to a refund from any other statute administered by the CRA (for example: a proprietorship GST/HST account) during the period you owe taxes, we may take it and apply your refund to your income tax debt and refund any balance to you.

Your Rights

Disagreement with the Amount Owing

If you disagree with, or if you do not understand an assessment or a reassessment, you should contact your tax services office immediately for an explanation. If you can provide some evidence that your assessment is incorrect, we will suspend collection action on the portion of the assessed taxes that you are questioning until the matter is reviewed and resolved. However, you must immediately pay any amounts not in dispute.

Objection and Appeal

It is your right to object to an assessment or reassessment if you think the law has been applied incorrectly. You must file your objection within the later of the following two dates: one year from the filing due date of the annual income tax return, **OR** 90 days after the date the notice of assessment/reassessment is mailed. Interest will continue to accumulate during this period.

When you file an objection, a CRA appeals officer will start an impartial review of your case. If you are not satisfied with the decision, the appeals officer will inform you on how you can appeal to the Tax Court of Canada.

You do not have to pay taxes under objection until you have had an impartial review by the CRA or, if you have filed an appeal, until the Tax Court of Canada has issued its decision. However, interest charges will continue to accumulate during this period. If the CRA considers that the collection of the amount is in jeopardy, the CRA will apply to the court for approval to start immediate collection action. Should you lose your appeal at the Tax Court of Canada, you may appeal the decision to a higher court. However, you will be required to pay the disputed taxes in full or post acceptable security.

Frivolity Penalty

The courts are empowered under section 179.1 of the *Income Tax Act* to impose a penalty of 10% of tax when an appeal proves to be frivolous or groundless and one of the main purposes for appealing was to defer the payment of tax.

Repayment of Disputed Amounts

If you file an objection, and have previously paid an amount towards an assessment or reassessment, you may request that we repay your payment (with interest) provided that you:

- filed your notice of objection at least 120 days earlier but it has not yet been finalized; or
- have appealed the CRA's decision to the Tax Court of Canada.

If you are entitled to a repayment, we will first apply the amount to reduce or clear any other amounts owing and not in dispute. In addition, when the CRA considers that the collection of a disputed amount is in jeopardy while you are entitled to a repayment, the CRA will apply to the court for an order requesting that the amount not be repaid.

Confidentiality and Privacy

As a taxpayer, you have the right to expect that the personal and financial information you provide the CRA will be kept confidential and will only be used for purposes allowed by law. However, if legal action is taken certain aspects of your tax affairs, such as the amount due and the type of tax owed, will be recorded on the legal documents.

Taxpayer Relief Provisions

The CRA may waive or cancel part or all of penalty and interest charges within ten calendar years after the end of a tax year. For example, a request made in 2009 must relate to the 1999 or later tax year to be considered. The CRA will consider this option when a taxpayer cannot make a payment on time, or otherwise comply with the *Income Tax Act*, because of circumstances beyond his or her control.

Such circumstances include:

- natural or man-made disasters, such as a flood or fire;
- civil disturbances or disruptions in services such as a postal strike;
- serious illnesses or accidents; or
- serious emotional or mental distress such as death in the immediate family.

The CRA may also cancel or waive interest or penalty charges if such charges arose mainly because of its own actions, such as errors made in the material available to the public which lead taxpayers to file returns or make payments based on incorrect information.

In addition, the CRA may waive or cancel all or part of the interest in circumstances where taxpayers cannot pay because of circumstances beyond their control. For example:

- when collection has been suspended due to an inability to pay caused by the loss of employment and the taxpayer is experiencing financial hardship; or
- when a taxpayer is unable to conclude a reasonable payment arrangement because the interest charges absorb a significant portion of the payments. In such a case, the CRA may waive interest in all or in part for the period from when payments start until the amounts owing are paid, as long as the agreed payments are made on time.

Requests to have penalties and interest waived or cancelled can be made in writing to the tax centre where you file your returns or to the tax services office serving your area. Alternatively, Form RC4288, *Request for Taxpayer Relief*, can be used to make a request. A copy of this form is available from the CRA Web site at www.cra-arc.gc.ca/formspubs/menu-eng.html or by telephone at 1-800-959-2221. The written request has to include an explanation of the circumstances involved, and it has to be supported by relevant documents.

For more information, see Information Circular IC07-1, *Taxpayer Relief Provisions*.

A Final Word

Our collection policies exist to ensure the law is fairly applied to all tax debtors. These procedures allow us to consider each individual's financial situation. This is an obligation we have to Canadian taxpayers, the vast majority of whom do pay their taxes in full and on time.

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