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Welch & Company LLP
Lévesque Marchand, Chartered Accountants

GST Related Issues

Changes to GST Penalties and Interest Charges

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The Federal Budget of May 2, 2006 has introduced changes to the application of penalties and interest to late remittances of GST payments and in respect of late-filed GST returns. While the government expects these changes to be "revenue neutral", the impact on any given GST registrant can be significant.

The Federal Budget of May 2, 2006 proposes to introduce significant changes to the application of penalties and interest to late payments of the GST tax and late filed GST returns. These changes are made in order to harmonize the application of penalties and interest across all Federal taxing statutes, including the Income Tax Act.

Under the current system, a flat penalty for a late filed return is not charged. Instead, a penalty of 6% per annum is assessed on late payments of any GST balance owing. This penalty is in addition to interest charged using the Treasury Bill rate.

Under the new system, the 6% per annum penalty will be eliminated. A new penalty will be introduced for late filed returns equal to a flat 1% of the unpaid balance as of the due date for the return plus an additional 0.25% for each complete month the return remains outstanding, to a maximum of 12 months (maximum total of 3% of the amount of the tax, plus the 1% flat penalty for a total maximum penalty of 4%).

Under the existing system, the 6% penalty doesn't amount to much if the balance was paid in full within a short period following the due date for the return. Under the new system, the 1% flat amount will automatically lead to a potentially significant penalty.

In addition, the interest rate on unpaid balances will be increased from the Treasury Bill rate to the Treasury Bill rate rounded up the nearest whole percentage point plus 4%.

Interest payable by CRA on refunds owing to registrants will be increased from the Treasury Bill rate to the Treasury Bill rate plus 2%.

In addition, provisions will be made to ensure that neither the interest nor the penalties on late filed returns and late paid balances owing will be deductible for income tax purposes.

These changes will take effect on the later of April 1, 2007 or the day the legislation receives Royal Assent. The 1% penalty on late filed returns will be applied to returns that were due prior to the implementation date. Therefore, be sure to file any outstanding returns by April 1, 2007 to avoid the 1% penalty.