Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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Quarterly tax instalments

What are they and when am I required to make them?

If you earn taxable income year after year that has no tax withheld or has insufficient tax withheld, you may have to pay tax instalments. For example, this may occur if you receive rental, interest, dividend, capital gains or self-employment income. To help you understand why and when this may apply, this article discusses tax instalments for individuals and the conditions where you're required to make tax instalments. This article does not discuss corporate tax instalments.

What are tax instalments?

Instalments are periodic income tax payments that are paid to the Canada Revenue Agency (CRA) every quarter. The due dates are March 15, June 15, September 15, and December 15. If the due date falls on the weekend or a public holiday, your payment will still be considered to be made on time if it's made by the next business day. You may be subject to interest and potentially a penalty if you don't make your instalment payments on time or make insufficient instalment payments.

The instalments are credited towards your actual tax liability for the year. If your instalment payments are insufficient to cover your actual tax liability, you will need to pay the difference by April 30 of the following year. If your instalment payments are greater than your actual tax liability, the CRA will refund you the difference.

When are you required to make tax instalments?

The CRA requires you to pay tax instalments in the current year if your net tax owing is more than $3,000 ($1,800 for Quebec residents):

- In the current tax year; and
- In either of the two preceding tax years.

When this occurs, the CRA may request that you make instalment payments based on the projected tax owing.

For example, if your net tax owing for 2026 and either 2025 or 2024 is more than $3,000 (or $1,800 in Quebec), you may have to make tax instalments during 2026.

Residents of Quebec

If you're a resident of Quebec, a limit of $1,800 applies. The CRA collects income tax through tax instalments

for federal purposes and on behalf of all provinces and territories, except for Quebec. As such, in addition to making tax instalments to the CRA, Quebec residents may be required to make tax instalments to Revenu Quebec. Revenu Quebec will send you reminders if they require you to make tax instalments. The rest of this article focuses on the CRA instalment requirements.

Calculating your instalment payments

The CRA mails instalment reminders in February (for instalments to be paid in March and June) and August (for instalments to be paid in September and December). These reminders show an amount to pay and provide you with payment options and deadlines for making the payments.

In some cases, you may not want to pay the amount indicated on the instalment reminders. You can choose to calculate your instalment payments based on any of following three options:

- The no-calculation option;
- The prior-year option; or
- The current-year option.

The instalment reminders sent to you from the CRA are based on the no-calculation option. If you make instalment payments under the no-calculation option — that is, you pay the amounts on the instalment reminders — the CRA will not charge instalment interest or a penalty, even if the total of the payments is less than your actual tax liability.

If, instead, you choose to calculate your tax instalment using the prior-year or current-year option and you underestimate how much you need to pay, you may be subject to instalment interest and potentially penalty charges. Any instalment interest and penalty charges that apply will appear on your current tax year Notice of Assessment or Notice of Reassessment.

Should I just make the instalment payments suggested by the CRA?

If your income, deductions and credits stay about the same from year to year, the no-calculation method may be best for you, and you may want to simply pay the suggested amount indicated by the CRA on the instalment reminders. However, if your current-year income, deductions and credits are significantly different from year to year, you may want to consider the other two instalment options. The other two options may allow you to better match your instalment payments with your actual tax liability, so you don't overpay or end up with a large amount of tax owing at the end of the year.

If your income, deductions and credits stay about the same from year to year, the no-calculation method may be best for you, and you may want to simply pay the suggested amount indicated by the CRA on the instalment reminders.

Choosing between the prior-year option or current-year option

If your income, deductions, and credits for the current tax year will be similar to the amounts from the prior year but significantly differ from two years prior, you may want to use the prior-year option. In choosing this option, you should obtain a tax estimate of your current-year taxes payable from a qualified tax advisor, as this will be helpful to ensure this option is the best for your current situation.

If your income, deductions and credits for the current tax year will be significantly different from those in the two previous tax years, you may want to use the current-year option. Again, in choosing this option, you should obtain a tax estimate from a qualified tax advisor.

Example

During the last few years, Richard earned rental income from a property he owned, and early this year, he realized a capital gain from disposing it. The rental income resulted in net tax owing during the years the property was held. This year, Richard expects a tax refund since he had sufficient tax withheld from his employment income and he made a large RRSP contribution to offset the taxable capital gain and the small amount of net rental income earned.

Because the CRA uses the no-calculation option, Richard's instalment reminders are based on the previous two years' tax liability. Since Richard is confident, he'll receive a refund this year, he concludes he doesn't need to pay the amount on the instalment reminders.

Richard decides to ignore the CRA instalment reminders. Assuming he's correct and he doesn't owe any more tax than what was withheld by his employer, he's right to ignore the instalment reminders. However, if he's wrong and it turns out that his net tax owing is higher than the amount he estimated, he may be subject to instalment interest and penalty charges.

How can I reduce or eliminate my instalments?

You may want to reduce the amount of your instalment requirements or eliminate the need for them completely. This can be done by requesting tax withholding or by increasing the amount of tax currently being withheld in certain circumstances.

For example, you can request tax withholding or increase it for Old Age Security (OAS) or Canada Pension Plan benefits by contacting Service Canada. You can also have additional tax withheld from employment income, pension benefits or registered retirement savings such as registered retirement income funds (RRIF) and life income funds (LIF).

Keep in mind that income tax cannot be withheld on certain types of income, such as self-employment, investment and rental income, and capital gains.

Special rules for farmers, fishers and deceased persons

Instalments for farmers and fishers

Different rules apply if your main source of income is self-employment income from farming or fishing. If this is the case, you will receive an instalment reminder in November and you only need to make one instalment payment by December 31 for the year.

Instalments for deceased persons

If you are paying tax by installments and pass away, instalment payments due on or after your date of death do not have to be paid. However, unpaid instalments due before the date of death may still need to be paid.

Conclusion

If you receive an instalment reminder from the CRA or Revenu Quebec, speak with a qualified tax advisor to determine if you should make the payment or pay a different amount. Even if you're not currently required to make instalment payments, you may want to review your situation with a qualified tax advisor to ensure you don't have to make instalments in the future. A review of your situation may be appropriate if your income has changed significantly in a given year.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.



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