

# Tax and Revenue Administration (TRA)

## *Alberta Corporate Income Tax Act*

### Information Circular CT-4R7

### Interest and Penalties

Last updated: October 31, 2017

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*NOTE: This information circular is intended to explain legislation and provide specific information. Every effort has been made to ensure the contents are accurate. However, if a discrepancy should occur in interpretation between this information circular and governing legislation, the legislation takes precedence.*

## Interest and Penalties

This information circular discusses the provisions of the *Alberta Corporate Tax Act* (the Act) and the administrative policies of Alberta Treasury Board and Finance, Tax and Revenue Administration (TRA) relating to interest and penalties.

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## Summary of Relevant Provisions

1. Section 39 of the Act contains provisions for charging interest on late or deficient payments of Alberta corporate income tax, penalties and excess Alberta Royalty Tax Credit (ARTC) instalments. Section 47 provides for refund interest on overpayments made by corporations.
2. Section 1(4) of the Act provides for the daily compounding of interest charged or credited.
3. Penalties are payable in respect of the late-filing of returns (section 37) and late or deficient instalments (section 73.1). Section 37.1 provides for penalties for false statements. Court-imposed penalties for various offences are provided for in sections 74, 75 and 79.
4. Interest and penalty provisions relating to the insurance premiums tax under Part 9 of the Act are discussed in [Information Circular CT-21, Insurance Premiums Tax](#).
5. Interest and penalties charged under the Act are not deductible in the determination of income on which Alberta corporate income tax is levied. Refund interest must be included in income. However, provisions are available to offset refund and arrears interest for interest periods after 2000. See paragraphs 31 to 41 for discussion of the provisions.

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## Rates of Interest

6. The rate used in the calculation of interest charges and credits is determined quarterly. The interest rate is based on a "reference rate" (the average interest rate, rounded up, on 90-day treasury bills during the first month of the preceding calendar quarter). The debit interest rate on net deficient instalments is three and one-half percentage points above the reference rate, and the credit interest rate is equal to the reference rate multiplied by 50 per cent.

Click here for [current and historical interest rates](#) or contact TRA.

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## Effective Date of Receipt of Funds

7. Remittances should be made payable to the Government of Alberta. The effective date of receipt of a delivered or mailed remittance is the date it is actually received by TRA. Corporations that send their remittances through the mail should post them well in advance of the date the payment is due, to avoid or minimize interest and penalty charges. TRA will accept post-dated cheques and will credit the corporation's account as of the business day on which the cheque becomes valid for deposit.

8. Remittances may be made through Internet payment services provided by major financial institutions in Canada. The effective date of receipt of these payments is the date TRA's account is credited. The earliest possible effective date is the next business day after the Internet payment was made.
9. Remittances may also be made through most financial institutions in Canada. Remittances made at a financial institution must be accompanied by a Remittance Advice. Copies of remittance advices are not accepted by financial institutions. The remittance will be credited to the corporation's account as of the business day stamped on the Remittance Advice by the financial institution.
10. Remittances may also be made through wire transfer. The effective date of receipt of these payments is the business day that the funds are received by TRA's bank. The address for wire transfers is:

Royal Bank of Canada  
10117 Jasper Avenue  
Edmonton AB T5J 1W8

For further information, contact TRA.

11. TRA prefers that payments be made in Canadian funds but will accept payments in **certain** other currencies, such as American funds. The payment will be converted to its equivalent in Canadian funds, at the exchange rate in effect on the date of receipt. For more information, see [Information Circular CT-23, Functional Currency Tax Reporting](#).

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## Interest on Tax Up to the Balance-Due Day

12. The general rule is that corporations must make monthly instalments of tax with any balance being due two months following the taxation year-end. Certain corporations are exempt from this general rule and are permitted to defer payment of their total tax to the end of the third month following the taxation year-end. In this circular, the day on which the final tax payment for the year is due is referred to as the balance-due day. [Information Circular CT-3, Alberta Corporate Tax Instalments](#) provides a detailed account of the rules pertaining to instalment requirements.
13. Interest on late or deficient instalments is calculated for the period starting at the beginning of the taxation year and ending on the balance-due day, using the "contra" or "offset" interest method. Using this method, each required payment increases the principal balance effective on the due date for that required payment. Each actual payment or other credit to the account reduces the principal balance as of the effective date of the payment or credit. Therefore, each debit and credit transaction creates a new principal balance with the last transaction occurring on the balance-due day. Interest is calculated on each new principal balance to the next transaction date, resulting in either debit or credit

interest calculations. On the balance-due day, debit and credit interest amounts are totalled separately. Credit interest is used to offset debit interest only and any excess credit interest is ignored. Net debit interest is added to the corporation's account, effective at the balance-due day.

The rates used to calculate both debit and credit interest for contra interest calculations are described in [paragraph 6](#) above. To ensure corporations are not penalized by prescribed rate differentials, the prescribed debit interest rate is used to calculate both the debit and credit interest amounts up to the balance-due day.

14. A corporation charged net debit interest on late or deficient instalments will also be subject to a penalty based on that interest. The penalty is 50 per cent of the amount by which the net debit interest exceeds the greater of:
  - a. \$1,000; or
  - b. 25 percent of the interest that would have been payable had the corporation paid no tax instalments at all.

The net debit interest and the amount referred to in (b) above include interest on ARTC transactions as discussed in [paragraphs 19](#) to 24 below. Where there is a reduction in tax for a year resulting from a loss carry-back, the comments in paragraph 27 apply in calculating the penalty.

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### **Interest after the Balance-Due Day**

15. Arrears interest is calculated and payable from the day after the contra interest period ends for as long as there continues to be an amount owing. If the corporation pays the amount owing **in full** within 35 days of the mailing date of the notice of assessment, no further interest charges will accrue. If the assessed balance is not paid in full within the 35 days, interest is charged on the account balance outstanding commencing from the date of the notice of assessment.
16. On the notice of assessment, the area entitled "Debit Interest" shows net debit interest charged under the contra interest system and all debit interest charged from the balance-due day to date of assessment.
17. Late-filing penalties, penalties on late or deficient instalments and penalties payable by reason of any other provision of the Act are included in the principal balance upon which compound interest is calculated. The effective date of a late-filing penalty is the required filing date. Interest on the penalty for late or deficient instalments is calculated from the balance-due day. Interest on any other penalties is calculated from the day of mailing of the notice of the original assessment of the penalty.

18. An overpayment for a taxation year earns refundable credit interest from the latest of the:

- day the overpayment arose;
- balance-due day; or
- day on which the corporation's return, complete with all necessary attachments, is received by TRA.

An overpayment for a year consists of:

- payments on account; and
- ARTC entitlement;

minus

- assessed tax, interest and penalties; and
- ARTC instalments.

Credit interest earned is reported on the notice of assessment in the area entitled "Refund Interest".

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### **Effect of the Alberta Royalty Tax Credit on Interest**

19. ARTC instalments are pooled with tax instalments for interest calculation purposes. The entire pool is subject to the "contra interest method" (as described in [paragraph 13](#)) to the balance-due day.
20. Each ARTC instalment paid to a corporation or applied to a corporation's account is debited to the pool at one of the following effective dates:
- a. the effective date of an instalment paid to a corporation is the date the payment is made; and
  - b. the effective date of an instalment that is applied to a corporation's account is the later of:
    - i. the "last day of the month" as described below, and
    - ii. the day that TRA received the corporation's ARTC instalment application.

21. For taxation years commencing before July 1, 1995, the last day of the month is the day that corresponds to the year-end date. For taxation years commencing after June 30, 1995, the last day of the month is determined by forward counting from the beginning of the taxation year. The first instalment date is calculated a full month less a day from the first day of the taxation year. Each subsequent instalment date is one month from the date of the last instalment. The final instalment date is at the taxation year-end.
22. On the credit side, when the corporation's tax return is assessed, a notional ARTC instalment entitlement is calculated for each month, whether ARTC instalments were actually applied for or not. The notional entitlement for a month is calculated by multiplying assessed ARTC by the ratio of days in the month over days in the year. The notional entitlement for a month is credited to the pool on the last day of the month, as described in [paragraph 20](#).
23. In the combined pool, a new principal balance, on which interest is calculated, is created after each actual and each notional ARTC transaction, and after each tax transaction. As described in [paragraph 13](#), net debit or net credit interest is determined as of the balance-due day. Net credit interest is ignored but net debit interest is added to the corporation's account.
24. From the balance-due day, debit interest is charged on ARTC instalments paid or applied in excess of the ARTC entitlement. Refund interest is not calculated on credit balances until the ARTC application is actually filed.
25. If the ARTC entitlement determined upon assessment exceeds the aggregate ARTC instalments paid or applied during the year, the excess is credited to the corporation's account as of the date the Alberta Corporate Tax Return (AT1) and application for the credit are filed. If the application is filed after the return, the later date will be used. An AT1 return or an application is considered to be filed on the day it is received by TRA.

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## **Interest Following a Reassessment**

26. When tax for a year is changed by reassessment, the required payments for the year are recalculated, taking into account the reassessed tax. Interest is then recalculated using the revised required payments, for the period from the date the tax for the year was originally due to the date the reassessed tax is paid. If an overpayment is reduced or eliminated on reassessment, interest is charged on the excess overpayment and on refund interest paid to the corporation relating to the excess overpayment.
27. While there is no provision in the Act for a corporation to pay an amount in anticipation of a reassessment, TRA is willing to accept such payments and hold them for application against reassessed balances. Debit interest on a reassessment which increases the Alberta tax payable or decreases the ARTC entitlement will be calculated on the entire amount up to the later of

the date on which the payment was received or the original notice of assessment date. Thereafter, the balance accruing debit interest will be reduced by the amount of the payment. In applying payments held in anticipation of a reassessment, the effective date used will be determined so that refund interest will not be calculated.

28. For interest calculation purposes, a reduction in tax for a year resulting from a loss carry-back is deemed to be a payment on account of tax for the year. The effective date assigned to this deemed payment is the latest of the:
  - a. first day following the loss year;
  - b. day on which the return for the loss year is filed;
  - c. day on which the loss carry-back request form, AT1 Schedule 10, is filed; or
  - d. day on which a request was made for the loss carry-back.
29. If a taxpayer requests a discretionary expense originally claimed in a taxation year (e.g., capital cost allowance) be reduced to make room for a loss carry-back, interest prior to the effective date of the loss carry-back will be recalculated to reflect the tax that would have been payable given the reduced discretionary expense. If the return for the year was late-filed, the substitution of a loss carry-back for some other discretionary deduction may result in the creation of, or increase in, a late-filing penalty.
30. If the ARTC entitlement for a year is recalculated, all interest calculations are redone, using the recalculated amount. A change in the entitlement affects interest for the period beginning with the first instalment entitlement date and ending on the date the revision in the entitlement is repaid by, or refunded to, the corporation.

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## Detailed Interest Calculations

31. Detailed schedules of interest charged to a corporation's account over a specified period will be provided by TRA on request.

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## Offset of Refund and Arrears Interest

32. Section 39.2 was enacted for interest periods after 2000 to allow a corporation to offset or reallocate income tax refund amounts on which refund interest is accruing in the corporation's favour against **concurrent** income tax arrears amounts accruing against the corporation. The rule eliminates the inequities that arise when refund interest accrued for the period is taxable but the arrears interest accrued for the concurrent period is non-deductible.



33. Section 39.2 contains the following definitions:

“Accumulated overpayment amount” – the overpayment amount of the corporation for the period together with refund interest that accrued with respect to the overpayment amount before the corporation’s specified offset date.

“Accumulated underpayment amount” – the underpayment amount of the corporation for the period together with arrears interest that accrued with respect to the underpayment amount before the corporation’s specified offset date.

“Arrears interest” – interest owing by the corporation, computed in accordance with the Act.

“Overpayment amount” – the amount on which refund interest is calculated for the period, or the amount to which the corporation is entitled that has not yet been refunded, but in respect of which refund interest would be paid if it were refunded. Note that an overpayment amount relates to a single taxation year.

“Refund interest” – interest payable to the taxpayer, computed in accordance with the Act.

“Underpayment amount” – an amount payable by the corporation on which arrears interest is calculated. An underpayment amount relates to a single taxation year.

34. For a period beginning after 2000, corporations may apply to TRA, in writing, to reallocate an accumulated overpayment amount on account of an accumulated underpayment amount for tax paid or payable under the Act.

Reallocation is permitted only for the period throughout which both refund interest on an overpayment amount and arrears interest on an underpayment amount is calculated.

Where interest for the period relates to overpayment or underpayment amounts for taxation years before 2001, reallocation is available only for interest amounts accruing after 2000.

Reallocation is available in respect of concurrent overpayment and underpayment amounts even if one or both of the amounts has been settled by payment after the end of the overlap period.

Reallocation does **not** apply to insurance premiums tax.

35. The application for reallocation must specify the amount to be reallocated and the effective date for the reallocation. In addition, the application must be made before a particular date, based on criteria discussed in [paragraphs 35](#) to 37.

36. The amount to be allocated shall not exceed the lesser of the corporation’s:

- accumulated overpayment amount for the period, and



- its accumulated underpayment amount for the concurrent period.
37. The effective date for reallocation shall not be earlier than the latest of:
- the date from which refund interest is calculated on the corporation's overpayment amount for the period, or would be calculated if the overpayment were refunded to the corporation;
  - the date from which arrears interest is calculated on the corporation's underpayment amount for the period; and
  - January 1, 2001.
38. The application for reallocation must be made within 90 days of the latest of:
- the day of mailing of the **first** notice of assessment giving rise to any portion of the overpayment amount to which the application relates,
  - the day of mailing of the **first** notice of assessment resulting in any portion of the underpayment amount to which the application relates, (The above two conditions will ensure only incremental amounts as a result of reassessments can be reallocated because the notice of reassessment will be the first notice of assessment giving rise to the over or underpayment.)
  - the day of mailing of the notification of the response to the notice of objection to the assessment giving rise to the over or underpayment,
  - the day when an appeal is discontinued or final judgment pronounced, or
  - the day of the first notice of determination from the TRA where no notice of assessment is issued.
39. Where a valid application is made, the specified portion of the accumulated overpayment amount is deemed to have been refunded to the corporation and paid on account of the accumulated underpayment amount on the date specified by the corporation. The accumulated underpayment amount is then reduced by the amount reallocated.
40. If a portion of the reallocated amount has been refunded to the corporation, the following rules apply:
- the portion of the amount reallocated that was previously refunded and any applicable refund interest are deemed to be payable by the corporation on the day the portion was refunded. Therefore, the corporation will be required to repay any refunded amount that it later applies to be reallocated; and

- arrears interest will be calculated on the reversed refund from the date it was originally paid to the corporation.
41. If a reallocation of an accumulated overpayment amount results in a new accumulated overpayment amount for a period, the new accumulated amount will not be reallocated unless the corporation applies for it in its original application.
  42. To take a reallocation into account, TRA may reassess interest and penalties, as necessary, despite the expiry of the normal reassessment period.

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## Penalties

43. A corporation not exempt from filing is required to file a completed AT1 within six months from the end of its taxation year. Certain corporations are exempt from filing a return. For more information about exemptions from filing, please refer to [Information Circular CT-2, Filing Requirements](#). **A corporation exempt from filing an AT1 will still be required to file a federal tax return.**
44. If a corporation is not exempt from filing and its return is filed late, the corporation is liable to a penalty. The penalty is the sum of:
  - a. five per cent of the aggregate of the tax unpaid at the required filing date and the ARTC instalments received by the corporation for the year, minus the aggregate of the ARTC to which the corporation is entitled and the amounts paid by the corporation in instalments and on or before the date on which the return was required to be filed,
  - plus
  - b. one per cent of the aggregate amount referred to in a) above for each complete month, not exceeding 12, between the required and actual filing dates.
45. A corporation may not file a return in the belief that it is exempt from filing and later discover it was not exempt. TRA will then use the corporation's filing date with the Canada Revenue Agency (CRA) to determine whether a late-filing penalty should be charged in Alberta. As discussed under [Information Circular CT-2, Filing Requirements](#), a corporation must file an AT1 return within 90 days from the later of the date it discovered that it was not exempt from filing or the required filing date of the AT1 return. Interest will be charged from the day the tax was due.
46. Although a corporation's return is considered to be filed on the day it is received by TRA, TRA does not charge a late-filing penalty if a mailed return is received within five working days after the required filing date. A return sent by courier service is not charged a late-filing penalty if received within one day of the required filing date. Hand-delivered or [net filed](#) returns received after the required filing date are considered late-filed.

47. A return must be filed in the prescribed form set out in [Information Circular CT-2, Filing Requirements](#). If a return is not accompanied by the necessary documents, the corporation will be asked to remedy the situation. Any refund interest to which a corporation may be entitled will not begin until the required information has been submitted. If the situation is not remedied as required, the corporation may be subject to prosecution.
48. A corporation is liable to an administrative penalty if TRA finds that the return, form certificate, statement or answer filed or made in respect of a taxation year contained false statements or omissions under circumstances amounting to gross negligence. The penalty is the greater of \$100 or 50 per cent of the:
- a. tax that would have been payable had the return been filed correctly, minus tax that would have been payable had the return been assessed as filed by the corporation,
  - b. refundable tax credits that would have been payable to the corporation if they were determined on the basis of the return filed by the corporation, minus refundable tax credits that would have been payable if the return had been filed correctly.
49. TRA will rely on assessment information received from the CRA where the CRA has assessed a penalty under section 163(2) of the *Income Tax Act* (Canada) to assess a section 37.1 penalty under the Act.
50. Corporations convicted by a court for wilfully attempting to evade payment of tax, or for claiming a refundable tax credit greater than that to which they are entitled, are subject to fines. Individuals who are party to corporate acts of evasion are also subject to fines and imprisonment on conviction.
51. A corporation that does not file a return as and when required is guilty of an offence and, on conviction, liable to a per-diem fine, determined by the court, for each day of default. Similarly, the directors of the corporation may be charged for not filing the corporation's return and are liable, on conviction, to a per-diem fine.

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## Contact Information and Useful Links

Contact Tax and Revenue Administration (TRA):	Email: <a href="mailto:TRA.Revenue@gov.ab.ca">TRA.Revenue@gov.ab.ca</a>
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