

News update

The best tax refund strategy

Strategy #1:

Pay down high interest, non-deductible debt.

Paying down debt is always a good financial strategy, especially if it is debt that carries a high cost such as running credit card balances. Or, debt where the interest is not tax deductible. Given lower returns for cash, bonds and even some equities, paying debt with a five percent or higher rate makes good financial sense. If the interest rate on debt is fairly low — under five percent let's say — we would suggest evaluating the best option, whether to pay down debt or invest the refund instead.

Strategy #2:

Make an early contribution towards this year's RRSP limit.

One of the key benefits of making an RRSP contribution is that it could increase your tax refund. If you tend to scramble to make a lump sum payment at the RRSP contribution deadline, use the tax refund you receive to get a head start. If you have a large unused RRSP carry forward balance, use this refund to whittle that down.

Strategy #3:

Make your tax free savings account contribution this year, if you have not done so already.

The TFSA is an excellent plan for those looking to eventually invest extra funds (on top of an RRSP contribution) into a tax sheltered plan with great tax benefits. **We all have cumulative TFSA room of \$63,500 now**, and working with our investors has shown us that many people have not fully utilized the savings room. As a general rule of thumb, if you are in a high marginal tax bracket today, we would argue it's best to maximize your RRSP contribution limit first before putting cash into the TFSA. Of course, there are exceptions to this rule, which we can explore with you if necessary. If you need to set aside some risk-free funds for a rainy day, the TFSA is also a good vehicle to do so, as any interest earned in a High Interest Savings Account is tax free.

Strategy #4:

For parents, make an RESP contribution early this year.

Again, our work with investors shows that many parents have not saved enough for their children's post-secondary education. As parents, we all want our children to go on to get a university education and do the best they can in their future careers. Total education costs (tuition, board, rent, books, supplies, etc.) are increasing each year, so the RESP and the 20%

government grant are still an important reason for parents to save for the increasingly expensive cost of a post-secondary education. The government grant is like receiving a 20% risk-free return so why wouldn't you take advantage of it?

We are sure some people can think of other ways to spend their tax refund. The point is to try not to waste the windfall. Make sure it is utilized in the most productive financial manner that will benefit you over time. Please contact us if you would like to discuss the best tax refund strategy for you.

Contact us

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