




NINE IDEAS FOR YOUR TAX REFUND



Just over half of Canadians who filed tax returns are expecting a refund this year.

Your refund isn't really "bonus money" - it's the government giving you back part of the taxes that you paid on the income you earned. They're really just returning your money.

A lot of people are tempted to spend their refunds on quick wins - a long overdue vacation or buying the latest gadget. But is that the most impactful use of your money?

The answer to that, is "It depends."

Your unique situation will determine the best option, but here are nine ideas for you to consider.

1. PAY DOWN DEBTS

In 2022, Canadians owed an average of \$21K in credit card debt. The interest on this debt is usually at a very high rate. Using your refund to lower your outstanding balance will allow you to save hundreds, if not thousands of dollars in interest payments.



2. SAVE FOR RETIREMENT

Why not use this money to add to your TFSA or RRSP? Adding money from the government to your retirement fund, ideally getting another, higher refund the next year is a great way to snowball your retirement savings. If in year one, you contribute \$20,000 to your RRSP and get a \$10,000 refund, in year 2, you could contribute the \$10,000 refund and only have to contribute \$10,000 of your own money to meet your savings goal. You've now got the government contributing to your retirement.

3. BUY LIFE INSURANCE

Almost one-third of Canadians don't have any form of life insurance. If this applies to you and your family, and it's keeping you up at night, then this is the year to add life insurance to your financial plan! To learn about the different types of insurance and determine which is right for you, check out our article "[What Types of Life Insurance Do I Need?](#)" and consult with your financial advisor.

4. PAY DOWN YOUR MORTGAGE

Investing in your largest asset is also an excellent way to allocate your tax refund. Making one extra mortgage payment each year can reduce your overall mortgage amount by thousands of dollars over the long term. The Government of Canada has a calculator to help you see what benefits this will have for your situation. Be sure to tell your mortgage institution that the extra payment needs to be applied against the principal, not interest.



5. BUILD YOUR EMERGENCY FUND

A good rule of thumb is to have 3 - 6 months of living expenses set aside in an emergency fund. This can be overwhelming for many people, but every little bit helps. Knowing that future “surprises” - not the good kind - won’t have as much of an impact on your finances, can give you some peace of mind.

6. SAVE FOR OTHER LONG-TERM GOALS

If your finances are otherwise in good shape, then consider saving for other future “wishes”. Maybe it’s for a dream vacation or a new car. It could be to help pay for a wedding or a home renovation. Making a lump-sum contribution towards these goals gives you a psychological boost that can add momentum to your savings plans.

7. SAVE FOR YOUR KIDS’ EDUCATION - OR YOUR OWN!

Depending on your family situation, this may be higher on the list for you. Your kids have opportunities to earn their own money towards school (jobs, scholarships, etc). You, on the other hand, don’t have opportunities to support your retirement - unless you plan to keep working. If you’re in a position to do so, though, contributing to an RESP for your children or grandchildren to take advantage of government grants is another good way to put your money to work. You could also invest in your own education and upgrade your skills to increase your salary.



8. CONTRIBUTE TO YOUR CHILD'S FHSA

The new First Home Savings Account, launched this year, is another option for your tax refund. Your kids (or grandkids) may not be able to contribute to these accounts yet, but your tax refund can get them started on the road to home ownership.

9. "BUY YOURSELF SOMETHING FRILLY"

Sometimes, though, it's just nice to treat yourself to something. If you've been saving and investing and are on top of your finances, this can be the best way to spend your tax refund. Guilt-free.

The choice of how best to spend your tax refund depends on your own priorities and goals; there's no right or wrong answer!

In the end, it comes down to the words of the great Mickey Mantle:

"If I knew I was going to live this long, I'd have taken better care of myself."

If you know that you made smart choices and are using your refund to plan for your future, that's worth its weight in gold. (*And that's a whole other investment idea!*)

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