

# Planning for your income tax refund

Many Canadians will receive an income tax refund from the Canada Revenue Agency (the “CRA”) or Revenu Québec (“RQ”), for those who also file taxes in Quebec. If you receive a tax refund based on your 2024 income tax return, it may be worthwhile meeting with your BMO Private Wealth professional to discuss how you can maximize using these funds, such as repaying non-deductible debt, or catching up on your Registered Retirement Savings Plan (“RRSP”), Tax-Free Savings Account (“TFSA”), First Home Savings Account (“FHSA”), or Registered Education Savings Plan (“RESP”) contributions.

## Notice of Assessment

Historically, the CRA’s stated goal is to issue a Notice of Assessment, including any applicable refund, within two weeks of receiving an electronically filed tax return, or eight weeks after receiving a paper-filed return (for returns received before their due date). To check the status of your Federal tax refund, you can use the My Account online service, or call CRA’s phone service. However, the CRA suggests waiting eight weeks after filing your return before calling to inquire about the status of your refund.

If you also filed a Quebec personal tax return, note that Revenu Québec aims to process paper returns in four to six weeks, while electronically filed returns may be processed within 14 business days. Revenu Québec advises to wait until the beginning of April before contacting them about the status of your refund, or four weeks after filing your return if you filed after March 31.

From a tax perspective, ensure that you take the time to review your Notice of Assessment with your tax advisor to determine if the CRA or Revenu Québec made any adjustments to your filed tax return. It is important to review the Assessment once available to understand any changes, since there are specific time limits to object or dispute an Assessment.

## Use your tax refund wisely

If you receive an income tax refund, consider the following strategies to maximize the benefit of your refund in your overall wealth planning:

- **Make a contribution to your RRSP/TFSA** – If you have unused RRSP contribution room, build your retirement savings by making an RRSP contribution. By making your 2025 RRSP contribution now, instead of waiting until the deadline next year, it will allow you to benefit from several more months of tax-deferred growth. The maximum RRSP contribution limit for 2025 is \$32,490. Alternatively, topping up your TFSA contribution now will also enable you to grow your money tax-free for a longer period of time. The annual TFSA contribution limit for 2025 is \$7,000.
- **Make a contribution to a First Home Savings Account** – Introduced in 2023, the Tax-free First Home Savings Account (“FHSA”), is a new registered account that provides first-time home buyers the ability to save up to \$40,000 towards the purchase of a first home.
- **Manage credit card debt** – Pay down credit card debt, beginning with those cards that carry the highest interest rate. Going forward, consider using a credit card with a low interest rate for purchases, and try to pay more than the minimum payment due, if not the balance in full, every month.
- **Make a lump-sum mortgage payment** – If you have a mortgage, check the terms of your mortgage and consider using your tax refund to make a lump-sum payment. Applied directly to your principal, a lump-sum payment could save you significant money in interest costs over the life of your mortgage.

- **Build an emergency fund** – Having money set aside in case of an emergency is not only a good financial strategy, but also helps you sleep easier at night. A good rule of thumb is to have at least three months' salary saved as a safety net. If you feel your job might be at risk, or if you are self-employed, six months is a better cushion. Your emergency fund should be easily accessible and it should be kept separate from your day-to-day bank account; perhaps in a high-interest savings account or in a TFSA.
- **Save for your child's education** – A post-secondary education is becoming increasingly expensive. Contributing to a RESP can help alleviate some of the pressure that all parents feel when planning for their children's future education. Consider opening or contributing to an RESP using your income tax refund. A \$2,500 contribution to an RESP can earn a \$500 Canada Education Savings Grant ("CESG") from the Federal government. By maximizing your contributions every year, you could earn up to \$7,200 in lifetime CESGs for each of your children.

### Planning for next year: Manage income tax withholding and instalment payments

If you typically receive an income tax refund each year, ask yourself, "Why am I giving the government an interest-free loan?" Refunds generally result because the income taxes that are withheld by your employer exceed your actual tax liability. Income tax withholding rates are an estimate of the taxes you will owe for the year if your only income source is the one upon which the taxes are being calculated. Withholding rates do not take into consideration all income tax deductions and

credits, such as RRSP contributions, deductible support payments or charitable donations. This can result in an overpayment of tax during the year and a refund when you file your tax return.

If you would like your employer to reduce the amount of withholding taxes from your earnings, you can make a request, in writing, to your Regional Taxation Services Office of the CRA and/or Revenu Québec. You will need to include documentation to support your request, such as RRSP contribution receipts or a written court order for support payments. If approved by the CRA and/or Revenu Québec, your employer will receive a letter of authorization to reduce the withholding taxes on your employment income. The reduced withholding taxes means you will improve your cash flow during the year by increasing your net take home pay, instead of receiving a lump-sum tax refund the following year when you file your tax return.

Similarly, many investors are required to remit quarterly personal income tax instalments on significant investment income which is not subject to withholding tax at source. If you do not adequately review the appropriate amount of tax instalments to remit, it can lead to an "interest free loan" to the government for over-remittances or non-deductible interest and penalties for late or deficient remittances. Consequently, if you own significant investment assets consider reviewing and planning for potential instalment requirements with your tax advisor – with assistance from your BMO Private Wealth professional.

Your BMO Private Wealth professional can help you plan for the tax efficiency of your investment assets and help you use your tax refund to your benefit. Please contact them if you have any questions about the planning tips discussed in the article.



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