

The Millennial Minute

Tax Return Time – What Should You Do?

Written by Ashley Nichols – Client Service Associate for the Biddle Johnston Wealth Management Team



Every April it comes without warning... or even much guidance. Tax Season. The time of year that causes needless stress while you check to make sure you have every T slip, every receipt to claim, every business expense claim, and any and all healthcare expenses, and more.

Tax time can raise the blood pressure of anyone who needs to file – but once it's done, you can sometimes get that

wonderful news that a return is coming your way!

If that happy discovery happens to you this year, there are many options when it comes to using your extra cash. While it can be so tempting to book a trip to someplace warm or fill your closet up with new spring and summer colors – there are ways to use your return that are just as satisfying, and financially responsible.

1. **Pay Down Debt** – This one, for many, seems like a no-brainer. The average Canadian household owes \$1.82 in credit market debt for every dollar of household disposable income so when a little extra cash comes our way, it can be a knee-jerk reaction to automatically put it towards debt. It's a smart move, since lowering your debt balance will also lower the amount on interest you pay, putting more money in your pocket in the long term.
2. **Open or contribute to a Tax-Free Savings Account (TFSA)** – A TFSA is a great savings tool for your long-term and short-term goals. TFSAs are flexible savings plans that allow your money to grow tax free. No matter the growth in your TFSA – capital gains, interest, dividends – you are able to withdraw these tax free and re-contribute withdrawn amounts the following calendar year. Best of all, contribution years stack infinitely. So, if you miss a year, you can contribute them along with the current year's contribution limit.
3. **Boost your Retirement Savings Plan (RSP)** – Depending on your income, tax returns may be beneficial when put towards your RSP. If you're a higher income earner, putting your tax refund into your RSP will lower your annual taxable income for the following year. And since your money is tax sheltered, your money can grow even faster until it's time to withdraw.
4. **Spend a little, Save more** – You could spend the return or save the return... but why not do both? If your return is large enough to treat yourself to one reasonably priced item/service/trip, then put the rest of the money into your savings. This way, you waive the guilt of spending the money on yourself by putting a sizeable amount away.
5. **Save for your kid's future** – If you have kids, you can put your refund away to boost their education funds. With post secondary costs rising to unbelievable amounts, the sooner you can start saving for their education, the better. Putting the money towards an RESP with the added CESG payments will build your child's education fund much faster.





6. Invest in your home – Even with the pandemic behind us, we’re still spending more time at home than ever before. Why not use your tax refund to improve your space? Put your return towards a bathroom renovation, create a getaway space for yourself, or build that new deck you’ve been wanting to do.

Alternatively, if you’re still saving for your first home, you can put your refund into the new First Home Savings Account (FHSA) to work towards your goal of home ownership.

7. Donate the money to a cause you care about – Times are hard all over the world, and there are countless numbers of people out there who could use help. If you are getting a tax refund and are lucky enough to be financially stable, why not give your return to a cause that you’re passionate about?

By donating to charity, you’ll be making a meaningful contribution to your community, and for many causes you can claim charitable tax credits when you file our income tax next year.

Tax refunds can feel like unexpected gifts. Make the most of your return and feel good about spending it in a way to make the biggest impact.



*This article was built from BMO article “7 smart ways to spend your tax refund”:
<https://www.bmo.com/main/personal/financial-resource-hub/how-to-use-tax-refund/>

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