

# What to do with your tax refund

Getting money back from your taxes? Plan now for what to do with those funds.

At some point over the next few weeks, Canadians across the country will receive their tax refund from the government.

It's always tempting to spend that money, but there may be better things to do with it than make a big online purchase. Here are a few ideas for how to put that refund to good use.

## Pay off debt

At the end of 2019, Canadians had a whopping [\\$2.3 trillion](#) in household debt. If you have any outstanding balances, and especially on high-interest credit cards, which often charge 20% or more in annual interest, use the money to pay down that debt. Depending on how much you owe, those monthly interest charges can be significant, so getting that down to nothing is important for your long-term financial health.

## Create an emergency fund

It's always a good idea to have an emergency fund, in case you lose a job or need to unexpectedly repair a roof, or replace a car. Most people, however, don't have emergency savings. Fortunately, it's never too late to start one, and your tax refund could be what you need to get it going. Consider putting that money in a high-interest savings account, where



you can earn a small rate of return while keeping those dollars liquid.

## Reduce your mortgage

If you can't stand carrying mortgage debt, or think you can get a better return by paying down a mortgage than in the stock market, then consider using that refund to reduce the outstanding balance on your home. Any additional payments go directly to paying down your principal, so that refund could make a big dent in what you ultimately owe. While you should check your mortgage rules, typically, you can make a 10% to 20% prepayment based on the amount owing, without incurring any extra fees.

## Top up your child's RESP

Canadians with families generally under-contribute to their Registered Education Savings Plans (RESPs), with just [52.7%](#) of eligible children getting the money they were entitled to from the government in 2018. For every eligible contribution made, the government gives you an additional 20% (up to \$500 per year per child,

and up to \$7,200 per child over the lifetime of the RESP). Fortunately, you can make up for lost time. A \$5,000 investment will allow you to qualify for the maximum current year's CESG grant and for one missed year. Even if you save annually, you could use this year's tax refund to fund your RESP instead of using money from elsewhere.

### **Add to your RRSP and TFSA**

One of the more popular uses of the tax refund is reinvestment in an RRSP or a Tax-Free Savings Account (TFSA). Putting that lump sum into a registered account, where it can grow on either a tax-deferred or tax-free basis depending on the account, is an easy way to add some additional funds to your investments. Contributing that money to your RRSP will also help you offset some of the current year's taxable income.

### **Donate to charity**

If you're feeling generous, or if you already regularly donate to charity, consider gifting the refund to an organization. That non-profit will get a lump sum of money and you'll get a tax receipt, which you can then use to reduce your overall tax hit next year. Donate wisely, and that receipt could help you receive another sizable refund.

### **Spend a bit**

If you really do have your eye on a big-ticket item, then go ahead and spend some of your refund on that purchase. If you can at least save some of it—maybe put half in an RRSP and spend the other half—you'll be better off than if you spent it all.

If you are entitled to a refund, think carefully now about what you want to do with those funds, so you can make those dollars work for you as soon as they arrive.

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