



Snapshots™

PERSONAL FINANCE:

MAKE THE MOST OF YOUR TAX REFUND

BEFORE YOU SPEND ANY TAX REFUND YOU RECEIVE, BE SURE TO CONSIDER THESE FIVE GREAT WAYS TO GET THE MOST OUT OF YOUR TAX REFUND.

1. Pay off debt. If you are carrying large credit card bills at double-digit interest rates, wipe the slate clean. If you have no credit card debt, pay down your mortgage. A \$1,000 prepayment on a \$100,000 mortgage amortized over 25 years at 7% will save you over \$4,000 in interest.
2. Make a lump sum contribution to your Registered Retirement Savings Plan. The sooner you make your contribution, the sooner it starts compounding. A \$1,000 RRSP contribution earning an annual average return of 10% over 25 years grows to nearly \$11,000. And your RRSP contribution could result in a tax refund next year.
3. Pay back your RRSP Loan. If you took out a loan to make an RRSP contribution, use your refund to pay that loan back. You'll save on interest charges and free up money that would otherwise go to your monthly loan payment.
4. Contribute to a Registered Education Savings Plan. The federal government provides a 20% grant on up to \$2,500 contributed each year (\$500). That's free money.
5. Contribute to a Tax Free Savings Account. You can invest \$5,500 per year in a TFSA. You don't get a tax deduction, but any income earned in the account grows tax free.

The very best thing you can do with a tax refund is to plan to avoid getting one. After all, the refund is actually a repayment of an interest-free loan you made to the government by overpaying your taxes. If you make a big RRSP contribution each year, ask your employer to deduct less tax off your paycheques. You won't get a big refund each spring, but your monthly cash flow will increase and you'll be able to put your money to work in your interest instead of the government's. Talk to your Human Resource Department about how to get less tax taken off at the source.

If you come into extra cash at any time of the year, be sure to talk to your financial advisor about your best course of action. An advisor should be able to help you decide which of the above strategies works best for you. Or, he may even tell you to live a little and spend some of it!

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