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One to One Insights

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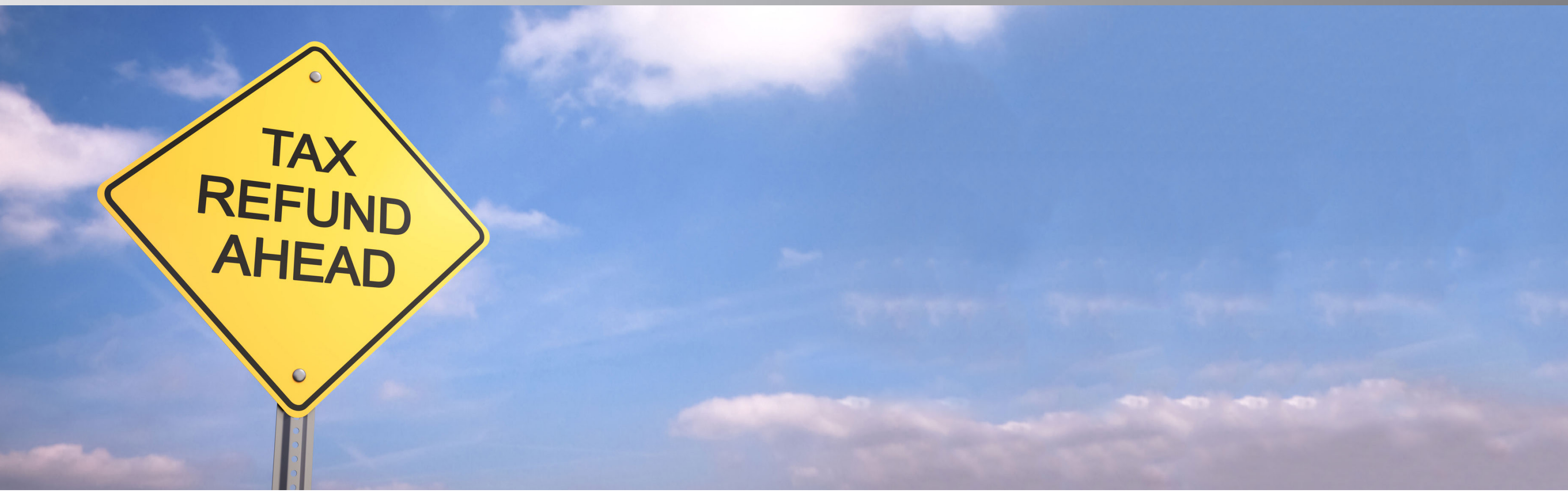

How to invest a tax refund … and avoid getting one next year!

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It's spring and many Canadians are anticipating a tax refund. Here are some strategies to help you get the most from your refund. You'll also be in a better position next spring by not getting refunds in the first place!

Ideally, a refund would be used to increase net worth, by paying off debt and topping up tax-advantaged savings plans. But, if the refund isn't enough to cover these strategies, which one is best? Debt bearing a high interest rate, such as credit card balances, should generally be tackled first. The remaining funds could be invested in an Registered Retirement Savings Plan or Tax-Free Savings Account—both providing tax-sheltered investment income—or to pay down any mortgage outstanding. Your choice will depend on factors such as current and expected tax rates, rate of return on investment and interest rate on debt. Another factor is when you'll need the funds in the future.

Perhaps the best advice, however, is to avoid getting a refund in the first place. A tax refund is really just a sign of poor tax planning. After all, it essentially means lending hard-earned money to the government, interest-free, for as long as 16 months!

A tax refund typically arises when the amount of tax owing for a year is less than the amount of tax withheld from income.

Employment income is the most common type of income from which tax is deducted at source. That's why employees are most often the ones who get significant tax refunds. There are two primary ways to avoid getting a tax refund for 2017: updating federal and provincial TD1 forms and requesting a tax reduction at source, using CRA Form T1213.

Form TD1, "Personal Tax Credits Return," along with its provincial or territorial equivalent, is filed with the employer. This form lists the various credits to which the employee is entitled, such as the basic personal amount, the disability amount and the spouse or common-law partner amount. CRA Form T1213, "Request to Reduce Tax Deductions at Source," may also be completed, listing various deductions that may be claimed when filing an income tax return. These include RRSP contributions, deductible spousal support payments, interest on money borrowed for investment or business purposes or childcare expenses.

The more credits and deductions that you can claim on these forms, the less tax will need to be withheld from each paycheque.