
# WHY A TAX REFUND IS NO REASON TO CELEBRATE

## Put your hard-earned money back in your pocket

The idea of a tax refund, particularly a large refund, is cause for celebration for most people, but it shouldn't be. The reality is that a tax refund means you have paid the Canada Revenue Agency (CRA) too much tax throughout the year. In essence, you have provided the government with an interest-free loan. The larger the refund, the larger the loan amount. Who knew you could be so generous!

You shouldn't have to wait until the following spring to get your money back. Fortunately, there is a way to correct the situation.

### THE SOLUTION

If you have non-payroll Registered Retirement Savings Plan (RRSP) contributions, childcare expenses, interest expenses on investment loans, maintenance or spousal support payments, charitable donations or rental losses, you can reduce the amount of tax deducted at source by your employer. Simply complete CRA's Form T1213, "Request to Reduce Tax Deductions at Source," a straightforward one-page form, and send or take it to your local tax office. Once approved, CRA authorizes your employer to deduct less tax from your pay. Call 1 800 959 8281 to find the tax office closest to you.

Quebec residents must also complete and file Form TP-1016, "Application for a Reduction in Source Deductions of Income Tax," with the Ministère du Revenu du Québec to ensure they receive both federal and provincial source deduction relief.

### HOW MUCH COULD YOU KEEP?

Let's assume you work in Ontario and make $80,000 a year. Let's also assume you make non-payroll RRSP contributions of $6,000 and have childcare expenses of $5,000 per year. By filing Form T1213, your monthly after-tax income will increase from $5,080 to $5,400. That's additional cash flow of $320 per month.

For most Canadians, that kind of extra monthly income could prove useful. Imagine the possibilities. But before you start envisioning that big screen TV, think about how you could put that money to work for you. The best approach for your additional cash flow will depend on your situation and your goals. For financial security, eliminating debt and then accumulating wealth should be priorities over spending the "found" money.

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## LET'S LOOK AT SOME OPTIONS

**REDUCE YOUR DEBT BY:**

### Paying down your credit card or consumer debt

If you are carrying a balance on your credit card, the high interest rates can erode your savings. Reduce the cost of credit by paying down debt with the highest interest rate first.

### Paying down your mortgage more quickly

Whether you have a traditional mortgage or a flexible mortgage with a line of credit, the value of reducing your principal sooner can be substantial. You can save thousands in interest costs and pay off your mortgage more quickly. Review the terms of your mortgage contract and make use of all options available without incurring prepayment penalties.

**INCREASE YOUR SAVINGS BY:**

### Maximizing contributions to your RRSP

The tax reduction you get based on your contributions and deductions can be directed back into your RRSP contribution for the year. The earlier you contribute, the longer you can take advantage of the tax-deferred compounding of investment income.

### Topping up your TFSA

A Tax-Free Savings Account (TFSA) allows investment growth to accumulate and be withdrawn tax-free. Because TFSA withdrawals are added back to your available TFSA contribution room in the following year, a TFSA provides a flexible source of money for mid to large-sized purchases.

### Contributing to an RESP

A Registered Education Savings Plan (RESP) allows a contributor to save money for a beneficiary's post-secondary education on a tax-deferred basis. The earlier you begin to contribute to an RESP, the more you will be able to take advantage of the compounding investment income and government grants. A contribution of $2,500 per year can earn a $500 grant per year until the end of the year in which the beneficiary turns 17, up to a maximum grant of $7,200.

### Establishing an emergency fund

It is important to have easy access to emergency money in order to cover unexpected events, such as a job loss, an illness or a major home repair.

### Contributing to an RDSP

A Registered Disability Savings Plan (RDSP) is available to assist families in planning for the long-term financial security of a relative with disabilities. Early contributions to an RDSP benefit from compounding investment income and can also benefit from available government grants and bonds.

By putting the money that already belongs to you back into your pocket – and without adding a single cent of extra cash – you can be on your way to financial independence sooner. •

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