Ten things to do with your 2021 tax refund

Spending and saving in helpful harmony

Other than those who work in the tax business, no-one looks forward to preparing an income tax return – *that is, unless you're expecting a refund!*

If you're particularly keen and prepared, the Canada Revenue Agency (CRA) allows for online filing of your 2021 personal income tax return as early as Monday, February 21, 2022. This year with April 30 falling on a Saturday, the deadline to file without facing a late penalty is midnight on Monday, May 2, 2022.

Whatever date you are able to get yours in, it's a good idea to register for your CRA "My Account" and sign up for direct deposit. According to the agency's website, you can receive your refund in as little as eight business days.

Back to the refund itself, you may have visions of champagne and caviar dancing in your head, but here are some suggestions to complement your intentions, before it's all spent.

1. Your RRSP

As a first priority, consider contributing a portion into your registered retirement savings plan (RRSP). It can get your savings routine going early in the year, and help generate another refund next year.

Even so, it's important to understand that the reason many people get a refund is because their employer was not aware of RRSP contributions made outside the workplace. Too much tax may have been withheld on payroll than required, so really you're getting back the money you loaned interest-free to the government over the year.

So, rather than waiting another 12 months before you get that next refund, you may wish to file CRA Form T-1213 with your employer to reduce the withholding tax on your payroll deposits. You'll increase your current cash flow, rather than waiting to get it in a lump sum next year.

2. Spousal RRSP

You can use your contribution room for your own RRSP or to put it toward a spousal RRSP. This sets the stage for income splitting between the two of you, as you get a deduction at your tax bracket now, and your spouse withdraws at an expected lower bracket later.

Understanding that the primary purpose is to assist with retirement income, that withdrawal does not have to wait until any particular age. Even so, don't be too hasty: Withdrawals taken in the contribution year or in the 2 calendar years afterward will be taxed to the contributor spouse.

3. RRSP loan paydown

An RRSP loan can give a boost to your RRSP if you don't have money available as you near the contribution deadline at the 60^{th} day of the year. Bear in mind though that interest on such loans is not tax-deductible.

It's a good idea to use the refund generated from the contribution to pay down the bulk of the loan initially, and pay off the rest over the coming months. Once the loan is paid off, you could continue that routine, but now contributing directly into your RRSP to get ahead on this year's contributions – and next year's refund.

4. Mortgage reduction

A home purchase is likely the largest single financial event of your life, usually accompanied by a mortgage that will take many years or decades to pay off. An annual top-up from your tax refund can be a simple and effective strategy to get you mortgage-free sooner. Those extra payments can reduce both the time required to retire that loan and the interest you pay, giving you increased flexibility and control of your finances along the way.

5. Paying down discretionary non-deductible debt

There can be many points in life when available resources aren't sufficient for current needs. That's when the prudent use of credit can help you bridge the time until you have surplus money to work with. Still, you have to keep an eye on your debt, as it can easily compound against you faster than you can build savings. It helps to have a plan and commitment to eliminate debt as soon as manageable, to keep your finances on track.

6. TFSA for flexible savings

The tax-free savings account (TFSA) was introduced 2009, complementing the RRSP program that has been around for more than half a century. TFSAs allow after-tax investment dollars to grow tax-sheltered and to be withdrawn tax-free. Each Canadian resident over age 18 is entitled to $6,000 of TFSA annual room in 2022, and for someone who was over 18 when it began in 2009 (but hasn't used it), the carryforward room is $81,500.

7. RESP for education

Post-secondary education costs continue to rise at staggering rates. That's why it's so important to save early for a child's education, and save smartly – which is where the registered education savings plan (RESP) comes in. Your tax refund can start or sustain an RESP. Coupled with generous government matching grants, all invested dollars grow tax-sheltered, with the earnings taxed to the student when withdrawn for eventual education needs.

8. RDSP for disability needs

Significant government support and tax benefits are available through the registered disability savings plan (RDSP) for families with disability needs. Government matching grants can be as much as 300% of personal contributions, making this a prime place to consider for tax refund money. Be sure, however, to coordinate the RDSP within an overarching life program, of which financial management is of course a key component.

9. Non-registered investments

Though we tend to think first of saving in the tax-sheltered plans mentioned above, there is a legal limit on how much can go into each of them. Once those options have been exhausted, you can use non-registered accounts that don't have such limits. And depending on your age and stage in life, it can make sense to complement or supplement current savings with non-registered investments even sooner.

10. Live it up … *a bit*

After all, saving is just spending-in-waiting – but try to keep it in balance.

For more information, please consult your financial advisor and tax professional.

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