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Ten things to do with a 2017 tax refund

For more information on the tax rules and other considerations, please refer to our *Tax & Estate InfoPage* which is available on our website.

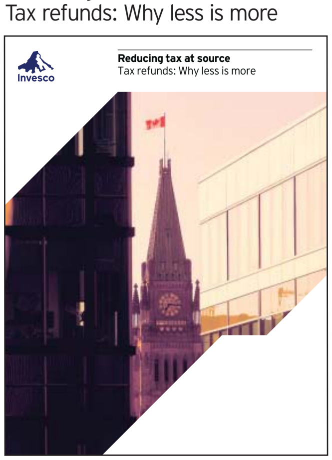
The tax filing deadline this year was Monday, April 30 – and, with the deadline behind us, attention now turns to managing any tax refunds your clients receive.

The temptation to spend that "new-found" money is high, particularly as early spring across Canada can feel more like an extended winter. An all-inclusive vacation can take away those blues, at least for a week. However, the following suggestions will keep your clients financially warm as better weather (hopefully) arrives.

1. Contribute to a registered retirement savings plan (RRSP)

An RRSP contribution will help generate another refund next year, but, in the meantime, paying excess tax is arguably an interest-free loan to the government until 2018's income tax return is filed. Rather than receiving this excess tax source withholding as a one-time payment next year, clients may be able to spread it out and receive it as increased salary payments by using the Canada Revenue Agency's Form T1213 to reduce tax deductions at source. Keep in mind that the maximum RRSP contribution for 2018 is $26,230 limited to 18% of the taxpayer's previous year's earned income and can be higher with carryforward amounts.

Reducing tax at source
Tax refunds: Why less is more



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2. Contribute to a Spousal RRSP

The Spousal RRSP remains a useful income-splitting tool even with the advent of the pension-splitting rules, particularly if clients want to access this money before age 65. Be sure to stay on the right side of the spousal RRSP attribution rules.

3. Pay down an RRSP loan

If clients took out a loan to fund their RRSP contribution, a prudent use of the generated refund is to eliminate or significantly reduce the loan balance now. The longer it remains outstanding, the more the non-deductible interest erodes the value of this strategy.

4. Pay down a mortgage

The sooner a mortgage is retired, the sooner there will be more in the monthly budget to devote to retirement savings. Whether mortgage and savings are addressed concurrently or in sequence, both contribute to clients' financial and psychological comfort levels.

5. Pay down consumer debt

Regardless of why it's there, this kind of debt often compounds faster than savings can grow. Clients should eliminate such costly commitments as soon as is manageable. The return is immediate and equal to the interest savings (which can be very high).

6. Contribute to a tax-free savings account (TFSA)

Consider topping up a TFSA, and note that a cash gift to a spouse that makes its way into a TFSA is not subject to the spousal income attribution rules. The annual allotment of TFSA room for 2018 is $5,500 but, as with RRSP room, can be higher with carryforward amounts.

7. Contribute to a registered education savings plan (RESP)

A good way to achieve a guaranteed return is to ensure contributions attract maximum government grants. Also, an RESP is great for both education savings and income-splitting with RESP beneficiaries, who are likely to be in a lower tax bracket when they receive payments. As well, building education savings systematically should help dampen sticker shock down the road when it becomes apparent just how much it will cost to send a budding scholar off to college or university.

8. Contribute to a registered disability savings plan (RDSP)

Significant government support and tax benefits are available through these plans for families with disability issues. Be sure, however, to integrate the RDSP within an overarching life program, of which financial management is of course a key component.

9. Contribute to non-registered investments

Whether investing directly or using leverage, the tax effect will be a key influence as you work with clients to manage investment types and sequence-of-returns risk, allocating assets to generate an optimal mix of interest, dividends, capital gains and return of capital. Have a plan within this non-registered world, and dovetail it with other savings.

10. Live it up ... a bit

After all, saving is just spending in waiting. However, it's a good idea to try to keep it in balance.

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