



CESTNICK

TAX MATTERS

What to do with your tax refund during COVID-19

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I'm not sure which makes more liars out of Canadians: income taxes, or golf. Lying about your golf score is safer, for sure. As for taxes, I believe that the majority of Canadians are honest when they file their tax returns. In 2017 (the most recent year for which data are available), there were about 28.5 million tax returns filed in Canada. About two-thirds of these folks receive tax refunds annually, and the average tax refund is about \$1,400.

Today, I want to talk about what to do with a tax refund – particularly during this pandemic. What you do with your refund this year might be a little different than in years gone by. Consider the following ideas.

1. SPEND SOME OF IT.

I know that the last thing many people are thinking of doing this year with their tax refund is spending it. And if you're out of work or otherwise have troubles

financially today, spending your refund is not your best option. But keep this in mind: In order for us to pull out of the recession we're in, consumers will have to start spending at some point. If you're still earning a stable income, you're on track in saving for retirement and your debt is under control, then spending all or part of your tax refund is just fine.

2. PAY DOWN DEBT.

Paying down your debt is never a bad idea. When you pay down debt, you're actually achieving a return on your money equal to the after-tax interest costs on the debt. But there's good debt (where your interest rate is low, and you've borrowed to purchase appreciating assets) and bad debt (borrowing for personal consumption at high rates). So, you'll want to pay down your bad debt, like credit cards, first. If your bank is helping out during COVID-19 by allowing you to defer your mortgage payments today, take advantage of this, if you can, and

redirect the cash you would have used for those payments to accelerate payments on your credit cards or other high-interest debt in addition to using your tax refund for this purpose.

3. INVEST FOR THE FUTURE.

It's always been good financial planning advice that you should have three months of spending available as an emergency fund. For those who have done this in the past, you may be very glad that you did, given the financial stress that many are feeling today. If you haven't set aside an emergency fund before, or simply haven't saved enough for retirement, investing your tax refund is a great idea. (I consider that conservative investments can be part of your emergency savings.) You're no doubt aware that the markets have taken a hit during this pandemic. The truth is, this will eventually provide an opportunity to invest more into the market at a time when securities may be "on sale."

4. GIVE SOME AWAY.

I've had conversations with several charities over the past month. One thing is clear: Charities are hurting as much or more than most businesses at this time. Canadians simply aren't giving money or time today, which is understandable. These charities fulfill an important role in our society. Not only do they employ thousands of Canadians, they provide goods and services critical to the health and well-being of Canadians and our communities. If you don't need your tax refund to meet your costs of living, give

consideration to donating those dollars to a charity that aligns with your values.

5. UPGRADE YOUR SKILLS.

A good friend of mine lost his job last month because of COVID-19. He was a manager in a shipping plant and has all the experience in the world to do a fantastic job for another company. His challenge is that he has no formal postsecondary education. He's taking the opportunity over the next few months to take some computer courses that will help in his next position. Now is a terrific time to contemplate how you might upgrade your skills, and perhaps use your tax refund to pay for all or part of that training.

6. DON'T EXPECT THE SAME NEXT YEAR.

The year 2020 will go down in history as the year of COVID-19 and the year when many things have changed. Things are no different for your taxes this year. Millions of Canadians have received financial support from the government during this time, and most of it is taxable. Yet, there have been no taxes withheld from payments such as the Canada Emergency Response Benefit, and so many Canadians will be surprised next year that they may actually owe taxes on their 2020 tax returns. Refunds will be a lot less common next year.

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