



CESTNICK

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TAX MATTERS

## Smart use of your tax refund can accomplish great things

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Last weekend I was watching the movie *Cinderella* with the family. You know the story. Partway through, the fairy godmother turns a pumpkin into a beautiful coach fit for a princess. I know it's been a long tax season when the first thing that comes to my mind is whether the value of the coach should be taxable as regular income or as a capital gain.

Thankfully, these thoughts will soon disappear from my psyche as we near the end of tax season. And after taxes are filed, many Canadians look forward to receiving their refunds. Today, let me share some facts and ideas for using your refund wisely.

### Refund basics

According to Canada Revenue Agency, the total value of refunds issued to Canadians as of April 17, 2023, is \$21,163,509,990 – that's right, just over \$21-billion. About 63 per cent of returns filed have resulted in refunds, and the average refund this year is \$1,741. Not surprisingly, 82 per cent of those refunds were deposited directly into the bank accounts of taxpayers, while 18 per cent

were mailed out by cheque. (You should register for direct deposit to get your refund sooner. You can do this online if you're set up with a My Account portal.)

Now, the Public Service Alliance of Canada-Union of Taxation Employees (PSAC-UTE) – CRA employees – [have been on strike since April 19](#). This could delay the processing of your tax return and your refund, particularly if you file by paper. Those who file electronically may see a slightly longer processing time but should still get their refund in short order.

As an aside, if CRA is delayed in getting your refund to you (i.e., later than May 31, 2023, for tax returns filed by the May 1, 2023, deadline) then you'll be paid 7 per cent per annum (the current prescribed rate) on that refund – not a bad return. The interest clock starts ticking on May 31, 2023, for returns filed by May 1, or 30 days after your return is received by CRA if you file late. So, file on time to speed up the collection of your refund, and to potentially earn interest. We'll know soon if the strike will lead to

more interest payments by CRA than in a typical year.

Now, what should you do with a tax refund? Consider four ideas.

### **Pay down debt**

This year, given the dramatic increase in interest rates, paying down debt with your tax refund is a great idea. This is equivalent to earning a guaranteed after-tax return on your money. Let's assume, for example, that you have debt with a 7-per-cent interest rate that is not deductible. For each dollar of that debt you pay down, you're achieving a 7-per-cent after-tax rate of return. Not a bad guaranteed return.

### **Invest the money**

Turn your refund into even more money by investing it. Contributing to a registered education savings plan will attract Canada Education Savings Grants from the government and will help with postsecondary education costs for a student in your life. Consider also contributing to a tax-free First Home Savings Account or giving money to a child or grandchild to contribute to one. Having an FHSA should be a no-brainer for anyone who qualifies ([see my article from Aug. 25, 2022](#)). Both an FHSA and an RRSP contribution will provide a tax deduction and additional tax savings. A TFSA is a good option as well.

Finally, given the rise in interest rates, investing in high-quality fixed income makes good sense today with higher yields making this asset class attractive. Using registered accounts to shelter the interest income from tax is smart. So, speak to your investment adviser about it.

### **Give it away**

Most charities are struggling to find donations today, partly because of the time of year, but also because people tend not to give when there's economic uncertainty on the horizon. Now, more than ever, is a good time to consider supporting charities and causes that are important to you. Create a "giving allocation" in your budget just like you might have an asset allocation for your investment portfolio. You might want to look for matching opportunities where larger donors have said they will match the donations of others up to some amount. This can maximize the impact of your giving.

### **Spend the money**

Last, you can always do your small part to thwart a recession by spending your tax refund. If we all did this and spent the money locally, it would add over \$30-billion to the Canadian economy. This might also be the most fun option. But I do put this idea last because it should be last on your priority list.

*Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at [tim@ourfamilyoffice.ca](mailto:tim@ourfamilyoffice.ca)*