



CESTNICK

TAX MATTERS

Got a tax refund? Consider these top 10 ways to use it

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You know you're old when you can remember the original 1970s advertising campaign for Roloids – the over-the-counter product to solve heartburn problems. If you had symptoms, the company wanted you to ask the question “How do you spell relief?” R-O-L-A-I-D-S.

Now, I don't want to diminish the value of a good antacid, but I think more Canadians have found relief in the past month from finding out they're getting a tax refund, rather than owing money to the taxman. It would be fair to say that Canadians spell relief: R-E-F-U-N-D-S.

Overall, our government paid out \$43.8-billion in refunds to 19.1 million Canadians from Feb. 8, 2024, to Jan. 27, 2025, for an average of \$2,295. If you're expecting or have already received a tax refund this year, what are you doing with the money? Your order of priority might be different than this, but here's a countdown list to consider, from No. 10 to No. 1:

10. Spend the money. Okay, this idea scores the highest on the fun scale, but

it's probably not the wisest financial decision. If you have to choose between spending or losing the money at a casino, spend it.

9. Give an inheritance. Consider helping your kids or other heirs today while you're able to see them enjoy or make good use of the money. Making gifts during your lifetime can also reduce taxes and probate fees on death since those assets will no longer form part of your estate.

8. Lend the money. For many years it made sense to lend money at the prescribed rate of interest to a lower-income spouse to split income. This idea began losing its lustre at the start of 2023 when the prescribed rate reached 4 per cent. The rate is on the decline again and is expected to be 3 per cent starting July 1, 2025. I think this rate is low enough to make spousal loans worthwhile again. See my article from Jan. 16, 2025 for more on this strategy.

7. Save for an education. Using your refund to contribute to a Registered Education Savings Plan (RESP) can

make good sense. You'll be entitled to the Canada Education Savings Grant (CESG) worth 20 per cent of contributions up to \$2,500 each year – which gives rise to a \$500 grant. If you haven't contributed enough in previous years to receive the full CESG, you can carry forward unused grant room and can receive up to \$1,000 in CESGs on contributions of \$5,000 in a year, subject to the maximum lifetime grants of \$7,200 per child. Additional grants may be available for lower-income contributors.

6. Buy life insurance. Life insurance can offer three benefits: Tax-sheltered growth of investments inside a permanent life insurance policy, tax-free payout on the death of the insured person, and a boost in the capital dividend account (CDA) of a corporation that receives death benefits. The CDA can allow shareholders to extract cash from the corporation on a tax-free basis.

5. Donate to charity. Why not do good with the refund you receive? For each dollar you donate, you'll receive tax savings typically equal to a little under half of your donation, depending on your province and income level. This year is turning out to be a tough year for charities, so make a difference if you can. If you're not sure where to give, contact your local community foundation to ask about the greatest needs.

4. Help with a down payment. You can help your kids buy a home. The best option? Give them the funds to contribute to a first home savings account (FHSA). They can contribute up to \$8,000 per year, or \$40,000 in a lifetime, get a tax deduction for the contribution, grow the funds on a tax-sheltered basis in the FHSA, and can withdraw the funds tax-free if they buy a home.

3. Start a small business. Many Canadians are starting part-time home-based businesses to earn additional income in these uncertain economic times. A tax refund might be just the start-up funding required to get a small business off the ground.

2. Contribute to a registered plan. It's never a bad idea to either save for your retirement using an RRSP (you'll get additional tax savings from the RRSP deduction – which can be used for other ideas here) or increase your emergency or other savings, perhaps through a tax-free savings account (TFSA).

1. Pay down debt. There's no better time than now to pay down debt – particularly debt where the interest is not deductible. Every dollar of debt you pay down provides a guaranteed, after-tax, rate of return equal to the interest rate on your debt – which is likely a pretty good return today.

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