

Tax
Talk

SCOTT TAYLOR



What to do with your tax refund

I love the commercials this time of year telling you how to spend your income tax refund.

Before you blow your windfall on a flat-screen TV or book a trip to Disney World, consider what your refund represents.

It's the government giving you back the change after you overpaid or had too much tax withheld during the previous year.

Nearly 58% of individual taxpayers received refunds after filing their personal income tax returns, with the average refund being almost \$1,700.

All told, Canada Revenue Agency paid out more than \$28 billion in income tax refunds in 2014. That's a

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any outstanding GST/HST returns from a sole proprietorship or partnership, or garnishments for child support, the CRA will use your refund to pay those obligations before passing any remainder on to you.

Be patient

CRA says it processes paper returns in four to six weeks. It's faster (as little as eight days) when you file electronically (EFILE and NETFILE). You can check the status of your tax refund online by logging in to CRA's My Account service.

If you owe tax

If you owe tax and money is tight, think twice before you call your RRSP administrator about an early with-

drawal.

An RRSP is a long-term savings plan. The idea is that by the time you retire you'll be in a lower tax bracket than you are now, when you're working and earning income. Funds withdrawn at that time will be taxed at a lower rate.

Generally, you must close out your RRSP by the last day of the year in which you turn 71. But if you take out funds from your RRSP for anything other than retirement, post-secondary education expenses for you or your spouse, or to buy your first home, you'll pay an immediate withholding tax of 10% on withdrawals up to \$5,000; 20% on withdrawals of \$5,001 to \$15,000; and 30% when the amount exceeds \$15,000 (in Quebec,

the tax is 21%, 26%, and 31%, respectively).

The amount you take out is considered taxable income so you'll not only pay more tax, the withdrawal amount may bump you into a higher income tax bracket.

Also, the withdrawal amount is not added back to your unused contribution room. Once you take money from the RRSP, you can't put that sum back in. If you're getting a refund from the government this year, ask yourself why. You can't escape paying what you owe but there are better places to put your extra money. With planning and professional help, you can adjust your tax payments during the year so they're not too small, not too big, but just right – and perhaps have cash left over for that trip to Disney World. ●

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heck of an interest-free loan.

It's a rush getting money back after you file your taxes, especially when the refund is more than you expected. Before you run to the mall, casino, or Space Mountain, take a few steps in a different direction:

Check the math

Your Notice of Assessment confirms that your tax return was accepted as filed or outlines any changes made by CRA. For your personal return, it will list your taxable income and any carry-forward amounts you can apply for 2015, as well as the amount you can contribute to an RRSP or tax-free savings account this year.

Check CRA's assessment against the information filed on your tax return. If there's a discrepancy, or you disagree with CRA's findings, contact the tax centre that processed your return (better yet, call your accountant). You have one year from the filing deadline of the return in question to make an appeal.

Save it

Some 20% of Canadians expecting a refund plan to invest the money in an RRSP or Tax Free Savings Account, or otherwise invest the money.

One idea is to build up your emergency fund. Put your refund in a savings account specifically for financial emergencies, like a major repair that you'd otherwise put on a credit card. You don't want to be paying for that engine rebuild for the next 10 years.

Pay debts

Nearly 58% of Canadians say they will use their refund to pay down debt. In some cases, they'll have no choice. If you have a government debt like student loans or EI overpayments, have