

Six Tips for Spending Your Tax Refund

A wide-screen TV might entice you. A tropical beach might beckon. But if you can resist the temptations, there are ways to get a bigger bang for your tax refund buck.

1. Pay down debt

Especially that high interest, non-deductible credit card debt. A \$5,000 credit card balance at 18% compounded monthly costs you \$978 per year. Ouch!

2. Pay off RRSP loans

Your RRSP loan was a smart strategy, and it created a larger tax refund. Now apply that refund to the balance of your loan. You'll save on interest charges and free up money that would otherwise go toward monthly loan payments. Channel that freed-up money into your RRSP by setting up a monthly Pre-Authorized Contribution (PAC) Plan.

3. Make a lump sum RRSP contribution for the current tax year

The sooner you contribute, the sooner your investments start to compound and the more you end up with when you cash out.

4. Create a rainy day fund

Are you prepared to cope with emergency purchases or unexpected interruptions to your household income? It's not a good idea to dip into your RRSP, especially if it contains the kind of investments that should be held for the long run. Instead, set up a separate rainy day fund. It should contain three to six months living expenses in secure, liquid assets. Start building your rainy day fund the stress-free way using monthly Pre-Authorized Contributions.

5. Save for a child's education

Drop your refund into a Registered Education Savings Plan on behalf of a child or grandchild. The federal government kicks in a 20% bonus to the plan, to a maximum of \$400 every year. Then, make sure that your child's education nest egg continues to grow by setting up monthly Pre-Authorized Contributions.

6. Avoid getting a tax refund in the first place

After all, what's a tax refund? It's really an interest-free loan that you've made to the government as a result of paying too much tax. Solution? Set up a Pre-Authorized Contribution Plan so you can make regular monthly payments to your RRSP. Your PAC Plan entitles you to request a reduction of tax at source. You won't get a fat refund cheque in the spring, but you'll have more cash in your pocket each month. Contact your local Canada Customs and Revenue Agency office for more information or speak to your investment professional.

A word about PAC Plans

Did you notice that Pre-Authorized Contribution Plans are recommended in four of the refund tips? Contribute as little as \$100 per month, or as much as your budget allows.

When financial markets are volatile, your PAC Plan acts like a shock absorber, thanks to the advantages of *dollar cost averaging*. Since you invest the same amount every month, your money naturally buys more fund units when prices are lower, and fewer fund units when prices are higher. Over the long term, this simple strategy tends to reduce the average price you pay for fund units, so you can enjoy higher potential gains.

Wise Financial Guidance To Empower You

Many types of investment options are offered by different companies to fit your specific goals. To help you decide which investment option is right for you, please contact Ozzie MacKay at 858-7909 or consult your financial specialist.

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