

# Managing a Retirement Savings Plan tax refund

If you have ever received a tax refund you will know the dilemma that comes when that money hits your bank account. The initial reaction is to spend it on something for you; and why not! You have worked hard all year and deserve a reward!

As you ponder the endless possibilities you suddenly receive emails with your latest credit card statement, quote for that much needed brake job on your car and reminder about Fido's veterinary appointment. Firmly back in reality, here are the top five practical options you might want to consider for that tax refund.

## 1. Set it aside as an emergency fund

Many financial advisors suggest that the equivalent of three to six months' salary be set aside for any unexpected expenses. Take your refund and set up an Equitable Life® Tax-Free Savings Account. This can act as an emergency fund to cover things like a brake job on the car.

## 2. Pay off credit card debt

Eliminating high interest credit card debt can help free up your cash flow. If you can pay off more than the minimum payment or even pay off the debt completely, you can allocate that money to other things. The trick is to pay off the credit card and keep it clear each month.

## 3. Contribute to your Retirement Savings Plan (RSP)

Get a jump on next year's contributions by contributing to your RSP. Using the power of "compound growth" by contributing early and often will put you in good shape when it comes time to retire.

## 4. Pay off your Retirement Savings Plan loan

If you have borrowed money to contribute to your RSP, now is the time to start paying back the loan. Paying the loan down quickly will decrease your cost of borrowing and again, free up that cash for other things. Remember Fido's appointment?

## 5. Pay down your mortgage

As interest rates will inevitably rise, the cost of borrowing will eventually go back up. Most mortgages will allow you to make an annual lump sum payment. Regardless of the amount you contribute, every little bit counts.

## 6. Lower the tax deducted by your employer

If you have certain tax deductions that allow you to have less tax deducted at source, here are some steps you can follow:

1. Complete and submit CRA form T1213 (Request to Reduce Tax Deductions at Source)
2. Check the box requesting a reduction in the amount of tax withheld on your salary or lump sum payments such as bonus or vacation pay.
3. Indicate which regular deductions and non-refundable tax credits you qualify for. These would include things like regular RRSP contributions, childcare expenses, etc.
4. When approved by the CRA, you will see more money on every pay.

If you are still on the fence about what to do with that refund, talk to your financial advisor today about the options that are best suited for you.