



Savers: 3 Smart Moves to Make With Your Income Tax Refund

Description

If it weren't for getting a refund each year, I'm convinced large swaths of Canadians wouldn't even bother submitting their income taxes. It's not a pleasant experience.

Many folks use their refund as a way to treat themselves. They do their taxes, get some money back, and then immediately go and blow their newfound cash on a new TV, laptop, or exotic vacation. Easy come, easy go.

There's nothing wrong with that, assuming you've got the rest of your financial house in order. But let's face it. The people who immediately spend their income tax refund on something frivolous aren't usually making smart decisions with their money.

It's time to buck that trend. Here are three smart ways anyone can put their tax refund to work.

Pay down debt

This should go without saying, but I still regularly encounter people who are paying 10%, 15%, even as high as 24% on their debt.

This is a guaranteed way to make anyone poorer.

It can still be a prudent move to pay down so-called good debt. Let's say you're sitting on some student loan debt that costs 5% a year. Stocks have traditionally returned about 8-10% a year, including dividends. So it makes sense to invest for the long term rather than paying off debt.

That's a valid argument, but I like looking at it this way: stocks should return more than debt. It's a riskier asset class. We've got to compare apples to apples.

Canada's largest bond ETF, **iShares DEX Universe Bond Index Fund** ([TSX:XBB](#)), is a reasonable fixed-income proxy. Even after selling off of late, it only yields 2.8%. This is the proper comparison when looking to pay down debt.

If I were sitting on debt that cost me 5%, I'd use my tax refund to pay down at least some of it.

Invest for retirement

There's one simple reason why I encourage most investors to put money in their RRSP rather than a TFSA. RRSPs come with a nice tax advantage. You reduce your taxable income every time you put money in an RRSP.

If you're in the 26% tax bracket, \$3,000 put into an RRSP translates into \$780 in tax savings. It's a guaranteed 26% return! If that tax refund gets reinvested into next year's RRSP, it creates a compounding effect.

The only thing left to do is decide how to invest that capital. If you're a young person looking for long-term growth, a great choice is **Extendicare Inc.** ([TSX:EXE](#)), which is one of Canada's largest owners and operators of assisted-care facilities. It is also a dominant player in Canada's home healthcare market.

Not only is Extendicare poised to profit from the long-term trend of an aging population, but it also trades at a reasonable valuation. And, best of all, it pays a generous 4.6% dividend.

Start a passive-income empire

The average income tax refund is only a few thousand dollars. That doesn't seem like much, but it is enough to at least get started building a passive-income empire.

Let's say you invested \$3,000 into **Dream Global REIT** ([TSX:DRG.UN](#)), the owner of 181 office towers in Germany and Austria, which collectively span 12.6 million square feet worth of space. The trust pays an 8.3% dividend, which is covered by cash flow — albeit barely. Income should go up as it passes on rent increases to existing tenants when their leases expire.

That \$3,000 could buy you 313 shares based on today's price. These shares each pay a monthly dividend of 6.66 cents. That works out to an extra \$20.84 per month. Do it each year for a decade (assuming nothing else changes), and you've increased your income by \$2,500 per year.

The bottom line

Too many people treat their income tax refund as found money, which is a silly attitude to have. That's your cash. You gave it to the government to use, and now they're giving it back. Make 2017 the year you finally start making smart moves with that unexpected windfall. Your future self will thank you.

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1. TSX:EXE (Extendicare Inc.)
2. TSX:XBB (iShares Core Canadian Universe Bond Index ETF)

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