



Canada Revenue Agency: How to Make the Best Use of Your Tax Refund

Description

I just met up with my accountant this past week to sign the paper for the income tax filing and know that I'll be getting a tax refund. Some Canadians prefer to owe money to the Canada Revenue Agency (CRA) rather than vice versa because of low interest rates.

Personally, I would rather get a tax refund. Although I ended up paying extra, it means I periodically paid my income taxes so that I don't have to come up with a gigantic lump sum at the end of each year. Besides, it's a pleasant surprise to get a tax refund.

With anticipation, I can now wait for its arrival into my chequing account. Meanwhile, I can think of how to make the best use of my tax refund.

It's very likely going to end up in my all-stock and cash investment portfolio. Here are a few best uses for the tax refund.

Put the tax refund in U.S. stocks

Some pundits say that over the long term, you can ignore forex volatility. However, the volatile can boost or hinder returns in the short run. For example, knowingly that U.S. dollars were strong against Canadian dollars, I bought a quality but very cheap U.S. stock during the pandemic market crash last year.

The position appreciated by 95% in a little over a year in U.S. dollars. However, I ended up booking only a gain of 64% primarily because the loonie has strengthened tremendously over the greenback.

Indeed, the U.S. dollar has dropped drastically in value compared to the Canadian dollar lately. In March, US\$1 was worth as high as CAD\$1.44. Today, the greenback is only worth about CAD\$1.23.

Therefore, it could be a great time to use your Canadian dollars to buy U.S. stocks. At the very least, convert some Canadian dollars to U.S. dollars.

It makes sense to invest in U.S. exchange-listed stocks only if you find quality businesses trading at attractive valuations of course. With all the money printing that's going on globally, you want to invest in assets that are expected to grow. And quality stocks are one type of such assets.

Explore **AbbVie, Amazon, Baidu, Bristol-Myers, Facebook, Netflix, Tencent, Walt Disney**, etc. as they appear to be at least reasonably valued if not decently attractive.

Invest the tax refund in Canadian stocks

If you would like to invest in Canadian stocks instead, there are still many options — for example, quality businesses with international exposure.

Although its core operations are in Canada, our banking leader, [Royal Bank of Canada](#), generates about 42% of its revenues in the United States and other countries. The bank is fairly valued today and will benefit from economic expansion into the future. It also offers a nice and safe dividend yield of close to 3.7%.

Keeping the tax refund as cash

The stock market is trading at an all-time high. It's getting increasingly difficult to [invest capital in today's market safely](#). If you have been investing your savings in the stock market all the way up from the pandemic market crash, it could make much better sense to keep your tax refund in cash instead of investing it when there's no margin of safety in the stock market.

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