Here’s How Much You Can Make by Investing Your Tax Refund Every Year

Description

The average refund on a tax return is $1,850, according to the latest data from the Government of Canada. That’s not enough to max out your contribution room in your Tax-Free Savings Account (TFSA), which typically increases by about $6,000 every year.

However, you can still earn a great return if you put that refund to good use: that’s the equivalent of saving a little over $154 every month. And as tempting as it may be to spend an influx of cash every year from the government, to make the most of it, you should consider investing it (assuming you don’t have other pertinent bills or debt to pay with it instead).

How much can you make from your return?

Let’s suppose you invest that money every year into an exchange-traded fund (ETF) that mirrors the **S&P 500 Composite Index**. With an average return of about 9% per year, this probably makes more sense than trying to bet on the next **Shopify** or **Amazon**. It takes the hassle out of figuring out which stock(s) to invest in and you can be reasonably certain that you will profit from long-term capital appreciation. Here’s how those returns could add up over the course of the next 30 years:

Year	Total Contributions	Beginning Portfolio Balance	Growth	Ending Portfolio Balance
1	$1,850	$1,850	$167	$2,017
2	$3,700	$3,867	$348	$4,214
3	$5,550	$6,064	$546	$6,610
4	$7,400	$8,460	$761	$9,222
5	$9,250	$11,072	$996	$12,068
6	$11,100	$13,918	$1,253	$15,171
7	$12,950	$17,021	$1,532	$18,553
8	$14,800	$20,403	$1,836	$22,239

9	$16,650	$24,089	$2,168	$26,257
10	$18,500	$28,107	$2,530	$30,637
11	$20,350	$32,487	$2,924	$35,410
12	$22,200	$37,260	$3,353	$40,614
13	$24,050	$42,464	$3,822	$46,286
14	$25,900	$48,136	$4,332	$52,468
15	$27,750	$54,318	$4,889	$59,206
16	$29,600	$61,056	$5,495	$66,551
17	$31,450	$68,401	$6,156	$74,557
18	$33,300	$76,407	$6,877	$83,284
19	$35,150	$85,134	$7,662	$92,796
20	$37,000	$94,646	$8,518	$103,164
21	$38,850	$105,014	$9,451	$114,466
22	$40,700	$116,316	$10,468	$126,784
23	$42,550	$128,634	$11,577	$140,211
24	$44,400	$142,061	$12,786	$154,847
25	$46,250	$156,697	$14,103	$170,799
26	$48,100	$172,649	$15,538	$188,188
27	$49,950	$190,038	$17,103	$207,141
28	$51,800	$208,991	$18,809	$227,800
29	$53,650	$229,650	$20,669	$250,319
30	**$55,500**	**$252,169**	**$22,695**	**$274,864**

By the end of the 30th year, your portfolio could be worth close to $275,000. You can quickly see the impact of compounding as during years one through five, the incremental growth every year is less than $1,000.

But by years 26 to 30, you are making more than $15,000 per year just in growth. You get a lot more bang for you buck by investing than if you were to spend that tax return on home repairs or splurge on an unnecessary purchase.

Although $275,000 will likely not be enough to save up for retirement (unless you significantly reduce your cost of living), this can still be a crucial part of your long-term plan for retirement. And any additional savings you can add to these year-end purchases will help you accelerate your portfolio's growth.

There may be years that you don't get a tax refund while in others you may get a lot more than the average. But by committing to putting that money aside and investing it, you'll be putting yourself in a better position many years down the road.

Bottom line

If you need your tax refund to pay off debt, that's going to be the optimal place to use it. But besides that, the best move would probably be to invest the money. And that goes for any sudden windfall of cash that enters your life, whether by luck or skill. Creating that discipline to invest and save as much as you can will set you up for a much better retirement.

By investing in an ETF to mirror the **S&P 500**, you also won't have to keep an eye on your investments and worry if your stock is the target of a short-seller or has a bad earnings report. It may be a boring strategy, but it comes with minimal risk!

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djagielski