NEWS

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BMO Nesbitt Burns Income Tax Refund Study: More Than One-Third of Canadians Plan on Paying Down Debt

- *Eight-in-ten Canadians expect to receive a tax refund this year*
- *Thirty-seven per cent will use their refund to pay down debt; 20 per cent plan to invest their refund*
- *According to the Canada Revenue Agency, the average tax refund is $1,585*
- *BMO Nesbitt Burns offers tips on how Canadians can use their tax refund wisely*

TORONTO, April 25, 2013 – With the April 30th personal income tax deadline just days away, BMO Nesbitt Burns today announced the results of a study revealing that more than half of Canadians who will be receiving a refund this year will use their refund either to pay down household debt or invest.

According to the study, eight-in-ten Canadians (79 per cent) expect to receive a tax refund this year. By looking at the returns assessed as of April 18, 2013, the Canada Revenue Agency (CRA) has received more than 13.1 million tax returns, 86 per cent of which were filed electronically. Of those, almost 8.8 million returns were eligible for refunds; the CRA has issued almost $14 billion in tax refunds. To date, the average individual tax refund has been $1,585.

Many of those anticipating a refund this year already have plans for their money. According to the study, they intend to:

- Pay household bills, credit card balances, mortgages and other debt (37 per cent)
- Save the money or invest it in a Registered Retirement Savings Plan (RRSP), Registered Education Savings Plan (RESP) or Tax-Free Savings Account (TFSA) (20 per cent)
- Spend it on travel, leisure or luxury goods (10 per cent)
- Conduct home renovations (seven per cent)

"It's encouraging to see so many Canadians invest their tax refund money or use it to lower their debt load," said John Waters, Vice President, Head of Tax & Estate Planning, Wealth Planning Group, BMO Nesbitt Burns. "While it may be tempting to spend the money on a trip or a flat screen TV, paying off debt or investing for the future will be more beneficial in the long term."

Mr. Waters noted that Canadians should consider tax planning as a year-round activity to ensure they take advantage of all eligible tax credits and deductions, including pension income splitting, charitable donations, disability credits and monthly transit passes. Even as the tax filing deadline approaches, Canadians still have time to do research to ensure there are no missed opportunities to maximize their tax refund.

Any Surprises Come Tax Refund Time?

The study also examined Canadians' thoughts on their Notice of Assessment - the form the CRA sends after reviewing a person's taxes to notify of corrections and whether they will receive a refund or have a balance owing. The majority of Canadians (82 per cent) are satisfied that their Notice of Assessment reflects what they calculated it to be when they filed their taxes, while eight per cent find the CRA's calculation to be a pleasant surprise.

"Proper preparation when filing taxes will eliminate any unexpected surprises when the Notice of Assessment arrives in the mail," said Mr. Waters. "If you receive the refund amount you thought you would, you can incorporate it into your budget and financial plan and use the money wisely."

BMO offers tips on how Canadians can make the most of their tax refund:

Pay down your RRSP loan or make 2013 RRSP contribution now: If you took out a loan to maximize your RRSP contribution and generate a larger refund, use your tax refund to pay down the loan. Alternatively, if you did not take out a loan, consider making your 2013 RRSP contribution now instead of waiting until the deadline next year. This will allow you to benefit from almost an extra year of tax-deferred growth.

Manage credit card debt: Pay down credit card debt – beginning with debt that carries the highest rate - and consider using a low-rate card or reducing your interest charges with a low interest rate option, such as a line of credit, for purchases.

Make a lump sum mortgage payment: If you have a mortgage, use your tax refund to make a lump sum payment. Applied directly to your principal, a lump sum payment could save you significant dollars in interest costs over the life of the mortgage.

Top up your savings: If you are not carrying any extra debt, make your refund work for you. Contributing to a TFSA will grow your money tax-free.

Save for education: If you are saving for a child's education, consider opening an RESP using your income tax refund, or making a contribution to an existing RESP.

Donate to charity: If you make a donation to a registered charity, the federal and provincial governments will give you portion of it back in return. For a bigger tax break, spouses can pool their contributions, and donations can be claimed in the tax year they were made or carried forward for up to five years.

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The online survey was conducted with a sample of 1,002 Canadians between March 15th and March 19th. The margin of error for a probability sample of this size is +/- 3.1%, 19 times out of 20.

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