

► tax planning

2007-11-MAST

Reducing Taxes Paid At Source

Did you get a Tax Refund this year? Don't let that happen again!

Believe it or not - A tax refund is nothing to be excited about. Essentially, a refund means you have lent your hard-earned money, for up to 16 months - interest free - to Canada Revenue Agency ('CRA'). A tax refund is nothing more than CRA returning your money that you probably didn't need to pay in the first place.

Large tax refunds can cost you money, especially if you have debt in the form of an outstanding credit card balance or a mortgage. Rather than overpaying your taxes to CRA, you could have been helping to reduce this debt by making higher payments. There are many other ways you could be using the money you've been overpaying in taxes. The bigger the tax refund, the bigger the cost to you.

Why do you sometimes get tax refunds?

The reason you receive a refund is that you have paid more tax throughout the year than you should have. Your company payroll department assumes that all the money you make will be taxable, which is true until you do something to generate a deduction or credit. Deductions and tax credits will reduce the taxes you owe and are likely responsible for the refund you receive when you file your income tax return the following year. If claimed properly RRSP contributions, child care expenses, alimony, employment expenses, interest or charges on investment loans and charitable contributions will all serve to reduce your tax bill.

How do you avoid this refund next year?

There is a way to minimize your tax refund next year. CRA has a process that allows you to make a request to 'Reduce Tax Deductions at Source'. You must first obtain CRA form T1213 from either your local district tax office or from the CRA website (www.cra-arc.gc.ca) and then follow the instructions at the top of the form. You are required to provide the details of the deduction or non-refundable tax credits you are entitled to such as child care expenses, support payments, interest expenses on investment loans and contributions to an RRSP. CRA will notify you within four to eight weeks whether they will approve your request. Once your request is approved you then must give CRA's approval notice to your payroll department at work so they can adjust your pay. This means you will receive bigger pay cheques and have successfully transferred purchasing power from CRA back to you.

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Put these 'bigger paycheques' to work for you

Pay yourself first. Set up an automatic bi-weekly RRSP contribution that is systematically withdrawn from your bank account on pay day and is contributed to your RRSP account. Each November print a transaction history to prove you have been doing this and have your taxes reduced at source again the following year.

Pay down debt starting with the loan with the highest interest rate. This will save you lots on interest all year long – compounded! For example \$3,000 in tax savings translates into an extra \$250 per month of disposable income. If that amount was used to pay an outstanding balance on a credit card you would save another \$345 in interest costs (assuming a typical credit card rate of 20%).

Alternatively you could increase your monthly mortgage payments. Additional payments go 100% towards reducing the principal owed. Over time this strategy will have a meaningful impact on your personal finances. This will not only make you mortgage-free sooner, it will also save you on interest. An increase of \$50 per month would save you over \$17,000 in interest over 25 years (based on a mortgage of \$250,000 at an interest rate of 6%).

Contribute funds to your child's RESP. The monthly contribution will entitle your beneficiary to a grant of 20% (for the first \$2500 per year), and both the principal and the grant will grow on a tax-deferred basis.

Make monthly contributions to your favourite charity. This will generate a tax credit, and help reduce your taxes payable next year.

And, if all you want to do with that tax refund is get away somewhere warm – great! Save or invest the extra money all year long, allowing you to collect the interest – and have a nicer vacation!

Next time somebody asks you what you are going to do with your tax refund? Tell them you are going to reduce it.

Professional advice can help you evaluate how your family will benefit from tax-saving strategies. Let's get together and review your situation. Your family could be enjoying substantial tax savings this year.

At DundeeWealth, we believe that having a financial plan forms the foundation necessary to grow, protect and transfer wealth from one generation to the next. We are committed to provide information on a variety of financial planning topics so our clients are able to make informed decisions.

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