



Stretching your bonus

Chances are you've already spent the bonus you've been expecting – in your imagination, anyway. It's not hard for most people to come up with ways to spend a lump of money.

But the first thing to consider, says Marc Lamontagne, a certified financial planner with Ryan Lamontagne Inc. in Ottawa, is that the lump sum you're anticipating is probably not what it seems, because you haven't paid tax on it yet.

"Usually, the government will withhold taxes based on your top marginal rate," says Lamontagne. "So if your top tax rate is 43 per cent, for example, that \$10,000 could turn into a \$5,700 bonus."

One way to mitigate that effect, suggests Lamontagne, is to have your company transfer the full amount of your bonus directly to your RRSP, assuming you have sufficient contribution room. That way you'll defer paying taxes on it until you withdraw the funds, he

says. Simply speak to the person at your company in charge of payroll to make the necessary arrangements.

If you're tempted to do something more lighthearted with your money, Lamontagne recommends asking yourself what's important to you.

"Do you want to fritter away your bonus, or do you want to use it to make a large purchase you've been looking forward to, such as a trip?" he says. "If you want to put the money towards a trip, consider opening a high-yield savings account with your bonus and then adding to it when you can."

RESPONSIBLE SPENDING

Here are some other suggestions to help ensure you'll have something to show for that money in the longer term:

- Pay down debts, starting with those that are not income tax-deductible. For example, student loans are deductible, as are loans taken out to make investments, whereas credit card debt is not.





- Pay down your mortgage. Every time you reduce your mortgage you save money in interest.
- If you don't have a mortgage, consider setting up a high-interest bank account to save for your first home.
- Contribute to your RRSP. Not only will you be contributing to your retirement savings but you will also get money back on your income tax return.
- Buy yourself something substantial that you've been longing for and which will enhance your quality of life for some time. Maybe now is the time for that home renovation project.
- Buy a painting or other work of art. You never know – a painting you fall in love with could appreciate significantly.
- Consider making a gift to a charity or a political party. Both of these options offer tax credits.
- Start an RESP for your child or a niece/nephew, or contribute to one that already exists.

If you do decide to put the money in a savings account, says Lamontagne, choose one of the higher-yield accounts now available. They offer much better interest rates than ordinary savings accounts.

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