

## Putting Your Tax Refund to Good Use

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Tax season is here. If you're one of the thousands of Americans who overpaid your annual tax obligation, you can look forward to a refund from the federal government. The average federal tax refund is nearly \$3000, according to the Internal Revenue Service.<sup>[1]</sup> That's a significant chunk of change. What will you do with your refund check?

Before you get the urge to splurge, think carefully about how you spend your windfall. If you must, give yourself a little "mad money" as a reward for your hard work, but take the bulk of your refund and apply it to something constructive. Here are a few suggestions to get you started.

**Build your safety net.** Your tax refund can help you establish financial reserves for a rainy day. The recommendation is to have six months to one year of salary set aside in an easily accessible account, such as a savings or Money Market account, to cover unexpected expenses or to replace interrupted income.

**Pay down debt.** It may take credit to build credit, but it's vitally important to keep debt to a manageable portion of your overall financial picture. If you carry a balance on revolving credit card debt, consider applying your refund to reduce or eliminate what you owe. High interest rates have a way of snowballing over time, especially if don't pay more than the minimum due each month.

**Save for retirement.** Someday you'll want to retire or at least cut back on your work schedule. You'll need multiple sources of income the day your regular paycheck stops. Why not fund an IRA with your tax surplus? You'll multiply your tax advantages if you place your money in a traditional IRA, since your contributions will be tax deductible as long as you do not exceed allowable annual maximums.

**Protect your investments.** If you're a homeowner, it's important to maintain the value of your investment. Consider making repairs and improvements that will increase the value of your home and also make living in it more enjoyable.

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**Make the world a better place.** If you're feeling charitable, you may choose to donate some or all of your refund to a worthy cause. Giving to charity is an honorable thing to do and can also provide tax advantages. By making a donation to a qualified charity, you may be able to receive a tax deduction, if you itemize your deductions.

There are thousands of organizations making a difference in the Washington, DC area. For example, the Capital Area Food Bank (<http://www.capitalareafoodbank.org/>) is one such organization where we regularly volunteer and contribute.

**File as early as possible.** The fastest way to receive your refund is to file electronically and also to request direct deposit. Your refund will be issued about three weeks later and deposited directly in your account. Be wary of businesses that offer to advance you your tax refund. You will pay dearly for this service.

**Seek financial planning help.** If, year after year, your tax refund is large, consider adjusting your deductions or estimated payments to reduce the amount of overpayment. You're better off keeping the money in your bank account than giving the government a short-term, interest-free loan. Consult a financial advisor for more ideas on how you can put your money to work and create a more secure future for yourself.

[1]<http://www.irs.gov/pub/irs-soi/10taxstatscard.pdf>