

Let's Talk Finances

6 Ways to Make the Most of Your Tax Refund



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Last year, more than 100 million Americans received an average tax refund of \$2,869 deposited back in their bank accounts after filing their taxes. It is a good idea to file as soon as you can get your tax documents in order to receive your refund more quickly and, most importantly, to prevent fraudsters from claiming your refund before you do. Your tax refund can position you to handle financial emergencies and give you a jumpstart on achieving your goals, whether it's paying off credit card debt or saving for a down payment on the home of your dreams.

The American Bankers Association offers the following tips to help consumers make the best use of their tax refunds:

1. **Create a safety net.** Too many people do not have enough money in savings to cover a \$400 emergency. Your tax refund can be used for a dedicated emergency fund that will cover you in a crunch. Ideally, it should hold about three-to-six months of living expenses in case of sudden financial hardships like losing your job or having to replace your car.
2. **Pay down debts.** Dedicate some of your tax refund to lowering any existing debt, such as credit card debt. Pay down existing balances either by chipping away at loans with the highest interest rates or by eliminating smaller debt first. You can also make an extra payment on your mortgage or student loans each year to save money on interest while reducing the term of your loans.
3. **Save for your child's education or future health expenses.** Look into opening a tax-advantaged 529 education savings plan to ensure school expenses will be covered when your child reaches college age. Or save for future health expenses with tax-free dollars by investing in a Health Savings Account.
4. **Grow your money with bonds.** Invest safely with U.S. savings bonds or municipal bonds. The U.S. Treasury allows for savings bonds to be purchased using your tax refund for as little as \$50. Savings bonds earn interest for a maximum of 30 years.
5. **Make home improvements.** Use your refund to invest in home improvements that will pay you back in the long run by increasing the value of your home. This can include small, cost-effective upgrades like energy-efficient appliances that will pay off in both the short and long term, especially if they qualify for tax credits. If you have more substantial renovations in mind, your bank can help with a home equity line of credit.
6. **Donate to Charity.** The benefit is two-fold: Giving to charity will make a difference in your community, and you can also claim the tax deduction, if you itemize.

Using your tax refund wisely can bolster your financial security. Having a plan in place before you receive your refund will reduce the temptation to spend that money on things you really don't need.