

# Smart Uses for Your Tax Refund

Whether your tax refund is \$500 or \$3,500, it can mean a real impact on your personal and financial well-being. Before you spend your refund on a big-screen TV or an iPod, try to think through your options, even the ones that aren't especially exciting or glamorous.

## Consider three general rules:

- **DO** plan ahead before spending your refund. Without a plan, you may use the money on the first important thing that comes to mind, and then later realize something else was more important. Planning ahead and involving the family increase the chances you will identify all the possibilities and think about which are most important.
- **DO** devote a portion of your tax refund to build long-term financial security.
- **DON'T** throw away part of your refund on loan fees – “quick refund” companies are just giving you a high-cost loan!

## Here are four smart uses for your money:

### Pay Off Bills

- First priority: regular monthly bills (utilities, phone) if you have gotten behind
- Other bills prioritized with highest interest rates paid off first

### Save for Needs in the Coming Year

- Emergency Funds – Try to have enough to cover a couple of months should you have an emergency, such as a medical expense or car repair, or lose your job.
- Occasional Expenses – Avoid big bills, such as holiday spending, by building savings now!

### Long-term Savings

- Save for goals such as a dream vacation, home or retirement.
- Small amounts add up! Putting \$500 a year into an IRA can yield \$68,100 after 30 years.
- Moderate-income workers contributing to retirement accounts may qualify for a tax credit.

### Special Purchases

- Once you have taken care of the basics, consider that new refrigerator, sofa or TV.
- These may be essential or can be delayed until you have saved for that specific item.

## Build a Yearlong Habit!

Making good use of your tax refund feels great. You can experience that same sense of accomplishment all year-round!

Tax refund season is not your only opportunity to make financial progress toward your goals. Every week you have opportunities to improve your financial well-being.

If you don't think you can come up with any extra money each month, look again. You may be able to plug a few spending leaks and “find” some money!

Once you've found some extra funds, you can use that money to:

- Keep bills paid up
- Pay off debt early
- Build financial security
- Keep saving – whether you're saving for retirement, college or something else, even a little bit makes a difference!

## Do You Find Yourself in a Yearly Cycle?

Do you receive a tax refund each spring, catch up, then get more and more behind throughout the year until next tax season?

Here are two options to consider:

- Put more in your paycheck by changing your withholding (form W-4) and claiming more exemptions.
- If you qualify for the Earned Income Tax Credit, you can request to receive part of it throughout the year (request form W-5 from your employer).

# NDSU

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