

Smart Ways to Use Your Tax Refund

For Women & Co. by Stephanie Taylor Christensen, Wellness on Less - 04/21/2014



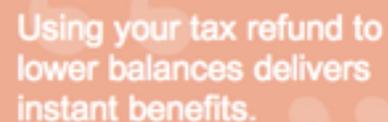
Finding out that you'll receive a tax refund can be exciting news, but how do you determine what to do with the money? How do you decide which payments to make first or which goals to save for, especially when you have several financial priorities? We asked a few experts for their advice.

Think in threes.

Certified financial planner Nancy D. Butler suggests thinking about your tax refund in three categories: 1. Pay bills; 2. Build savings (including retirement/investments); and 3. Spend. "How much you allocate to each area should be based on your current financial position, and the future you want," says Butler. "If you need it now, spend no more than one third and allocate the balance to paying bills and saving/investing." To get your refund where it should be, the IRS offers a free Split Tax Refund service. Citi customers, for example, can directly deposit their federal income tax refund in up to 3 accounts—including a Citibank IRA, money market account, checking and/or savings account. That means faster access to your refund AND no risk your refund check will be lost or stolen.

Take advantage of guaranteed returns.

If you're carrying high interest on things like credit card debt or private student loans, using your tax refund to lower balances delivers instant benefits. "If you're paying 19.99% on a credit card balance, for example, you earn 19.99% on that money as soon as you pay it off," says certified financial planner Tana Gildea of Compass Financial Planning External Site. "You also free up the monthly payment you were making to put toward other financial goals."



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Protect your financial blind spots.

If you don't have an emergency fund equal to at least three to six months' worth of your income in an interest-bearing savings or money market account, consider dedicating at least a portion of your tax refund toward creating or bolstering one. Gildea also recommends using your refund as a pivotal first step in tackling future financial goals you may not normally prioritize, like saving for your child's college education or the eventual purchase of a new car.

Invest for maximum advantage.

If you didn't max out eligible contributions last year to your deductible work-sponsored retirement plans, such as a 401(k) or a 403(b), Christina Povenmire, CFP and owner of CMP Financial Planning External Site, recommends putting your refund toward achieving that goal —

for both tax advantages and potential long-term growth. (You can contribute up to \$17,500 in 2014External Site.) Though Gildea explains that putting your refund toward the \$5,500 maximum allowed IRA contribution for the 2014 tax yearExternal Site (or \$6,500 if you're age 50 or older) may not be tax-deductible, depending on your income and participation in an employer plan, you can still benefit from tax-deferred growth on your money. If you want to invest your refund directly in the stock market, Gildea recommends choosing a diversified portfolio of mutual funds — especially those with lower management fees: The higher the fee, the more you'll ultimately reduce your return on investment.

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