

Best Ways to Spend Your Tax Refund

As the April 17 tax filing deadline nears, many people will be in the enviable position of receiving a tax refund. It's a nice surprise to get back some of the money you paid in taxes during the year. It's also a great opportunity to make some sound financial decisions that will reap benefits now and in the future, according to the Texas Society of CPAs. So before you splurge all of your newfound funds, consider some of these money-wise alternatives.

1. PAY OFF YOUR BILLS

- If you have high-interest credit cards, hefty student loans or any other debts looming over your financial landscape, CPAs recommend that you use some if not all of your refund to pay them down as much as possible.
 - If you pay off a credit card with a 16% interest rate, you've just gotten yourself a 16% return on your money—an added bonus that compares very well with most investments.
 - Once you've wiped the slate clean of outstanding debt, you can use your hard-earned money to save up for dream purchases.
 - But if you don't lower your debts, you will instead end up wasting money on interest charges.

2. SAVE FOR THE FUTURE

- No matter what your plans may be, the best way to make them come true is to save regularly so that you have the cash ready when you need it.
 - Use your tax refund to open a savings account or deposit it into an existing account.
 - Or put the money into a "vacation account", and start saving up for the summer family vacations
 - Deposit your return in a college savings account for your child(ren).
 - Then let the money grow until you're ready to follow your dream.

3. GET A HEAD START ON RETIREMENT SAVINGS

- Use at least some of your refund dollars to start one or add to an existing account if you do have one.
 - That way, your refund can grow tax free and provide a firm foundation for your retirement.

4. CREATE AN EMERGENCY ACCOUNT

- It's a good idea to set aside some money to cover unexpected emergencies, such as loss of a job, an injury or hospitalization or another unforeseen crisis.
- However, after paying your regular monthly bills, it can be difficult to earmark funds for an emergency.
 - That's why it's a great idea to use your windfall from Uncle Sam to do it.

5. SPLURGE, BUT DO IT WISELY

- If you don't have any high-interest debts and you do follow a regular savings plan and set aside money for retirement, then go ahead and spend your refund.
- CPAs recommend that you consider indulgences that might be a good investment, such as updating your kitchen or bath or taking other steps that will improve your home's resale value.
 - They are fun choices but they will also pay you dividends in the future.

6. CHECK YOUR WITHHOLDING

- Finally, remember that while it's great to get an unexpected cash windfall, if you regularly receive large refunds every year you may be having too much money withheld for taxes from your paycheck.
 - And that's a bad idea, because you could be using that cash all year as part of your regular budget.
 - If you think this may be the case, speak to your CPA about whether you need to adjust your withholding amount. He or she can guide you... tax facing your family.