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MANAGING IN TOUGH TIMES INITIATIVE

# FAMILY FINANCIAL MANAGEMENT

March 2012



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## THIS MONTH'S TOPIC:

# Take Control of Your Taxes

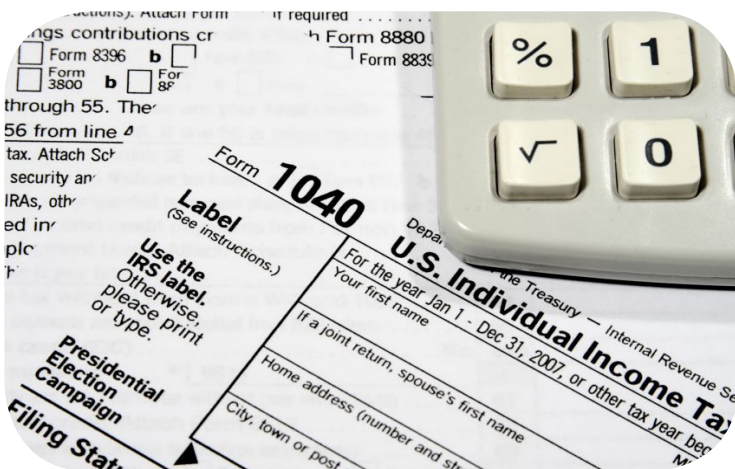
It's tax time! In 2011, over half of tax payers received a refund, with an average yield of over \$3,000. For many Americans, this payment may be the largest lump sum received during the year. Although it might be tempting to spend your tax refund on something fun, it is important to develop a plan to use the refund to help meet financial goals for 2012.

If you expect a tax refund this year, plan now to ensure the best use of the money. First, consider splitting the refund. The Internal Revenue Service will allow you to split it into different accounts. Splitting your tax refund is similar to having your employer or bank split your paycheck between savings and checking accounts.

Statistics show that if you deposit your paycheck directly into checking, you will save less than if you split the deposit between checking and savings. The same principle applies to your tax refund. You can split it whether you file electronically or by mail. Take advantage of this and designate money for spending, retirement savings, building an emergency fund, or other financial goals. Once the money is deposited, stick with your plan.

Plan on paper how you will spend your refund. Start by identifying two or three financial goals for 2012, then determine how you can use the refund to help reach those goals. For example, do you want to pay off credit-card debt? If so, set aside a portion of your refund to make an additional payment on your highest interest credit-card or possibly pay off the smallest debt entirely.

Also, consider ways to use your tax refund to increase your family's financial stability. Build an emergency fund, aiming to have three to six months of living expenses in a savings account. Finally, look at your monthly budget. Set aside money now to pay upcoming expenses or save for a family vacation to avoid credit-card debt.



## *It is important to develop a plan to use your tax refund*



### **Avoid Refund Anticipation Loans**

During tax time, many tax preparers, as well as car lots, payday loan services, and other retail outlets, offer refund anticipation loans or rapid refunds. Many people see a refund anticipation loan as an opportunity to get their tax refund faster; however, it is really a very expensive loan! Although you will receive an instant refund, you will receive much less than you would have by waiting to receive it from the IRS. Remember, a refund anticipation loan is just like any other loan: it must be repaid in full. If for some reason your tax refund is less than anticipated, you will be responsible for paying the lender the difference. Instead of choosing a refund anticipation loan, file taxes electronically and receive your refund by direct deposit, which on average, takes 10 business days for the IRS to process. If you do not have a bank account, you can receive your refund on a prepaid debit card. If you are considering a refund anticipation loan, be certain to ask the interest rate, other fees being charged, and the penalty if your actual refund is less than the loan amount.

### **Adjust Withholding**

If you receive a tax refund this year, you may consider changing your withholding amount, or the amount of taxes deducted from your paycheck. Ideally, you do not want to receive or owe the IRS any money at the end of year. If you receive a refund, you are overpaying throughout the year, or allowing the government to borrow your money interest free.

The average tax refund in 2011 was \$3,000. That is an additional \$250 per month that could be used to pay down debt, build an emergency fund, increase retirement contributions, or work toward other financial goals. It is easy to change the amount of taxes withheld from your paycheck by adjusting your W-4. Check with your employer to update this form and the recommended withholding amount, which is determined by marital status and the number of allowances or dependents you claim. The IRS also has a withholding calculator available online at <http://www.irs.gov/individuals/>, under the tools tab. If your family situation changes throughout the year, you can update your W-4 at any time.

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