

MONEY WISE

VALUING PEOPLE. VALUING MONEY.
MANAGING IN TOUGH TIMES INITIATIVE



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THIS MONTH'S TOPIC:

MAKING THE MOST OUT OF YOUR TAX REFUND

Tax refund season: It's like Christmas come early! Or late? Either way, tax refund season is an excellent opportunity to begin the new year making wise financial decisions. According to the Internal Revenue Service, the average tax refund in 2016 was about \$3,050. Historically, Americans have found a wide variety of uses for their tax refunds which range all the way from saving to spending, and everything in between. But maybe you have wondered, what should I be doing with my tax return? Consider the following suggestions to guide your decisions during the upcoming tax return season.

Contribute to Emergency Savings

Many Americans don't have adequate money in their precautionary savings fund. (Note: Most financial experts recommend savings of at least 6 months of living expenses). As a result, many people are financially vulnerable in the case of job loss, illness, or any other unexpected

expense. Adding to your emergency savings will make you more financially secure. Although it isn't as fun or exciting as buying a new vehicle or the latest technology, contributing to your emergency savings is one of the wisest uses of your tax refund.

Reduce or Eliminate Debt

Most Americans are currently carrying some form of debt, whether that be credit card debt, student loan debt, vehicle loans, etc. Using your tax return to reduce high interest loan debt is





a smart move because not only will you reduce the principle, but you will also manage to reduce the amount of interest you will owe in the future. Compare the impact of putting your tax return in a savings account that earns 1% interest vs. reducing credit card debt with an 18% Annual Percentage Rate. Eliminating debt will give you much more bang for your buck.

Pay Yourself...In the Future

For many people, their first inclination is to treat their tax refund like an unexpected windfall and to run out and spend that money immediately. However, paying yourself now will not be nearly as wise as paying yourself in the future. In other words, invest your tax refund to be used at a later date. You can do this in a variety of ways:

- Start a college fund for your children: Whether you already have kids or you plan to have kids in the future, it is never too early to start saving. In an era of sharply rising costs of higher education, saving for college is an excellent use of tax refund dollars.
- Contribute to your retirement: Even if you have been conscientious about contributing a portion of each paycheck to your retirement savings, it can seem as though there is never

enough money to feel financially secure in the future. Pad your retirement accounts with your tax refund.

- Invest in the stock market: Although it would be advisable to address outstanding debts first, investing in the stock market is a good use of tax refund dollars because it has pretty consistently outperformed savings accounts, bonds, and Certificates of Deposit.

Spend it Wisely

If you elect not to use your tax refund for any of the above and you have decided you want to spend it, do yourself a favor and spend it wisely. Use tax refund dollars to improve your vehicle or your home because these expenses pay dividends in the future as well. For instance, renovating your home has the future added benefits of saving on energy costs and improving the value of your home.

Reference: <https://www.irs.gov/pub/irs-soi/16databk.pdf>

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