

MAKING TAX REFUND DECISIONS

A tax refund is a welcome bonus. Whether it is \$300 or \$3,000, the way you use that money can have a real impact on your personal and financial well-being. Want a new computer? Better car? Flat-screen TV? Those items are attractive. But it's important to consider whether buying something you want versus something you need is a good decision in the long run.

Strategies for using your tax refund wisely

Here are some strategies to ensure that you make the best tax refund decisions for you and your family.

- Plan ahead before spending. Without a plan, you may spend impulsively. You may use the money on the first thing that comes to mind, but later realize something else was more important. Before you spend, take a moment to write down all the possibilities. Then identify which are the most important at this moment for you and your family.
- Pay off bills. Your first priority should be paying off bills you may have fallen behind on. These might be things like utilities, phone or internet. Prioritize debts so the ones with the highest interest rate get paid off first.
- Save for needs in the coming year. Set money aside to help you cover potential emergencies and occasional expenses:
 - Emergency funds. Saving money for emergencies can get you through unexpected small expenses like car repairs or medical bills. If you lose your job, an emergency fund can keep you afloat until you find another income source. Consider putting some of your tax refund into an emergency fund.
 - Occasional expenses. Big bills that come once a year or every few months cause huge problems for families. Avoid problems by being ready for those bills! Use your tax refund to start a special savings fund and then keep adding to it throughout the year.
- Save for short- and long-term financial goals. Do you need a new refrigerator? Is a holiday coming up? Purchases like this are valuable, too. Some may be essential, while others simply add enjoyment to life.
- Save for long-term financial security. You can use your tax refund to save for your overall financial security. Even small amounts can make a difference. Adding just \$500 a year to a retirement account, such as an IRA, can make a big difference over decades. Take this "small amount" plan one step further by making a monthly contribution if your budget allows for it. The interest will add up!

More tax refund considerations

Here are some more suggestions for tax refunds:

- Use direct deposit to receive tax refunds fast.
- Ask the IRS to split your direct deposit refund into up to three different accounts. These could be checking, general savings, health savings, retirement, or education savings accounts. This will help you meet your savings goals. For more information, see [Form 8888: allocation of refund \(including savings bond purchases\)](#) on the IRS website.
- Never have a tax refund deposited into a bank account other than your own.
- Don't ask for an advance on your tax refund. This carries a heavy surcharge. Don't throw away part of your refund on loan fees.

Credit to University of Minnesota Extension Faculty

- Mary Jo Katras, Extension educator in family resiliency
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<https://extension.umn.edu/taxes/tax-refund-decisions>



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