

Tips For Making The Most Of Your Tax Refund



Although tax season is often the most dreaded time of year, many consumers look forward to getting what's owed to them. According to Kiplinger.com, about 70 percent of all filers get tax refunds and are anticipating a tax refund this year averaging \$2,200. Americans more than ever are choosing to e-file and with more consumers filing their income taxes before April, the extra cash can't come soon enough. You can also get your income tax refund faster with direct deposit. IRS Form 8888 allows you to deposit your refund into more than one account so you can wisely save and spend your tax refund.

Family Foundations suggests the following tips for managing your tax refund:

- **Avoid refund anticipation loans (RAL).** An RAL is an extremely high-cost bank loan secured by your pending tax refund, which you have to pay back even if you don't get a refund. If you're looking for a quick refund you can get it within two weeks or less by e-filing and having the refund directly deposited into your account. You can e-file for free if you earn \$52,000 or less. Also consider the Volunteer Income Tax Assistance (VITA) program and AARP's TaxAide - both offer free tax preparation for low-income taxpayers.
- **Pay down credit cards or other high interest loans.** Use your refund to pay more than the monthly minimum payments. Add extra cash to loans with high interest rates. Remember, credit card debt is simply an unsecured loan. The longer the life of the loan, the more you'll pay for borrowing the money. If you can't pay them off completely, make an extra payment. By making an extra credit card payment you can reduce your interest costs.
- **Pay down your mortgage. Any extra payments go toward paying down your principal.** Paying off your mortgage faster means you pay less in interest. Using your refund to reduce your mortgage debt can mean substantial long-term savings. Just by making two extra payments a year, you might be able to pay off your loan in 15 years on a 30-year mortgage.
- **Contribute to or open an emergency fund.** Most people don't have money stashed away for unexpected emergencies. Your tax refund is a great way to start. Family Foundations recommends saving three to six months of living expenses. By placing the cash in a separate savings account or short-term CD, you're going to be less likely to use it and it will be there in case of an emergency.
- **Invest in retirement.** Many people are working after the normal retirement age of 65 and it is estimated that a majority of workers believe they are behind on their retirement

Family Foundations Tips on Your Tax Refund savings.

Whether it's your 401(k), IRA or Roth IRA, investing your tax refund now could mean a nicer cushion later. The sooner you start saving the more time your money has to grow. Make retirement savings a high priority by setting goals for yourself, devising a plan and sticking to it.

- **Service the car and tackle other to-do's.** If you've been putting off getting an oil change, cleaning the gutters or fixing the leaky roof - now's the time to cross those things off your list. Using your tax refund to maintain your expensive possessions now could save you money in the future.
- **Open a 529 College Savings Plan. A college education isn't getting any cheaper.** With 529 College Savings Plans withdrawals are tax-free when used for higher education. Plus, some plans come with tax benefits.

Family Foundations stands ready to help. To reach us, call (904) 396-4846 or go online to www.familyfoundations.org.

About Family Foundations

You don't have to solve your financial problems alone. Family Foundations has trained and certified credit counselors who offer financial management and debt reduction services. Family Foundations is a nonprofit, community-based organization and a Member of the National Foundations for Credit Counseling (NFCC). For more information on Family Foundations, call (904) 396-4846 or visit www.familyfoundations.org.