



Make your tax return money work

Before your return is even prepared, you've probably already imagined what you will do with your tax refund. But before you start spending, take a moment to consider this: a tax refund is **not** found money.

It's **your** hard-earned income that you lent to the Internal Revenue Service **interest-free**.

Think about the refund differently and see what else you can do with it.

You *want* to reward yourself - You **need** to pay off debt

You *want* that plasma TV - You **need** to save for your retirement

You *want* that Disney vacation - You **need** to do home improvements

You *want* new furniture - You **need** to build an emergency savings fund

So what's the wise thing to do with your tax return?

Pay off credit cards

Or at least pay them down. High interest credit cards are driving you further into debt. Paying down your debt is one of the smartest things you can do with your refund check. Pay off the highest balance first and then the smaller ones -- or vice versa -- *just pay them off*.

A credit card with an \$8,000 balance, at an annual interest rate of 16%, paying only the minimum payment, will take **more than 27 years to pay off**.

And stop using credit cards.

Fund your retirement

Consider investing all or at least some of your tax refund in a tax-favored retirement account. With a traditional IRA, your earnings grow tax-deferred and if you meet certain eligibility requirements, your contribution may be tax deductible. Contributions to a Roth IRA are not deductible, but withdrawals are tax-free if certain conditions are met.

Establish or replenish an emergency fund

Having at least \$1,000 socked away will come in handy in an emergency. Then continue to make regular contributions to it the rest of the year and watch it grow until you have several months' salary.

Your funds should be accessible in an emergency, but not so easy to get to that you can blow your fund on a whim purchase that feels like an "emergency" in the heat of the moment.

Your emergency fund will help you stay away from check-cashing places or from using your credit card when life gets rocky.

Save for college

Ask your tax advisor about college savings plans for your children. There can be tax advantages to investing in these.

Or invest in your own education. Your tax return can help pay for college or adult education classes. Investing in education is smart.

Do some preventive maintenance or improvements

Are there some minor repairs you could make today that would spare you a larger expense down the line – for example, a new roof for your house or tires for your car? Consider using your tax refund for these purposes or for making home improvements with a high payback value, such as adding landscaping or upgrading a bathroom.

Save.

Save for your emergency fund. Save for college. Save for a rainy day ... or a holiday. Every little bit adds up. For example:

- A monthly deposit of \$20 at 6% annual interest yields a total of **\$3,293.99** available for withdrawal after 10 years.
- Same scenario, except \$25 per month and 5% interest is **\$3,898.29**.

Open a holiday savings account so you aren't tempted to use credit cards when December rolls around. Or invest your savings. Investing is not just for the rich. Your money grows over time and every little bit adds up.

Reward yourself -- but only a little

Limit splurging. Treat yourself to something within a set limit, like \$75. A pedicure or a nice dinner out feels like a luxury. But NOT a plasma TV or expensive vacation that will prevent you from saving or paying off debt.

Don't let it happen again

You have to file a return, but you don't have to get a big refund. Remember -- receiving a large tax refund means you lent Uncle Sam your own money interest-free. File a new W-4 form to lower your withholding and you'll receive more money in each paycheck. Invest the extra dollars in your company retirement plan, an IRA, or a mutual fund.

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