

# Tax Tip #3: Turn Your Tax Refund into **Extra Savings**

With the due date for filing federal income tax returns right around the corner, many people will soon need to decide what to do with their income tax refunds.

This year, why not devote all or a portion of your money to something that will have a lasting impact on your financial health? Here are some ideas to make the most of your refund.

- **Reduce your credit card debt.** Using your refund to pay down your outstanding credit card balance can make a huge difference in your bottom line. That's because of all the different kinds of debt you may have, your credit cards are likely to carry the highest rates in terms of finance charges. To see what your credit card debt may be costing you, go to [miretirement.com](http://miretirement.com). There, you'll find a handy **Credit Card Payoff Calculator**.
- **Pay down your mortgage.** If you're allowed to pre-pay a portion of your mortgage, using your tax refund to help can be a good idea. Any extra mortgage payments you make will lower the principal you owe, which can help you pay off your mortgage faster and cost you less in interest.
- **Build your emergency fund.** Like many Americans, you may have tapped your emergency savings in recent years to meet current expenses. Your tax refund could provide an easy solution to help you rebuild that account.
- **Fund an IRA.** You have until April 18, 2011, the due date of the return, to put up to \$5,000 in your IRA for 2010 (\$6,000 if you are age 50 or older). By directing all or a portion of your tax refund to your IRA, you can help boost your retirement savings and have that money grow tax deferred for your future.

Directing your tax refund to an IRA is easy. Using direct deposit, you can split your tax refund among



## Get More Money as You Earn It

If you consistently receive a large refund each year, you may be claiming too few exemptions. Speak with your payroll department to see how you can adjust your withholding. By completing a revised Form W-4, you can adjust how much federal income tax is withheld from your earnings. Your state withholding form should also be reviewed. This can translate into more money in your pocket each payday.

For more detailed instructions, go to the IRS Web site at [irs.gov](http://irs.gov). There, you'll find tools to help you determine the right number of allowances to claim on your W-4, including Publication 919: *How Do I Adjust My Tax Withholding*, and an easy-to-use Withholding Calculator.

up to three already open accounts, including checking, savings, health savings, Roth and SEP IRAs, and Coverdell Education Savings Accounts. All you need is your account number and a completed IRS Form 8888 (Allocation of Refund), which is available on the Internal Revenue Service (IRS) Web site at [irs.gov/pub/irs-pdf/f8888.pdf](http://irs.gov/pub/irs-pdf/f8888.pdf).

- **Add to your taxable savings.** If you've already maxed out on the contributions to your tax-deferred retirement account, consider opening a taxable account and using your refund to build your savings. There are no restrictions on how you can invest the money, and no early withdrawal fees if you find you need or want to take money from the account.

In 2010, the average income tax refund rose to a record of nearly \$2,900.<sup>1</sup> What if this year you used your refund to boost your savings? That money could help you take an important step toward building a more secure financial future. ■

<sup>1</sup> McCormally, Kevin, "How to Adjust Your Tax Withholding," Kiplinger, December 2010, <http://www.kiplinger.com/features/archives/how-to-adjust-your-withholding.html?si=1#>.

## How Others Use Their Tax Refunds

CareerBuilder conducted a survey of more than 5,200 workers, asking them how they planned to use their tax refund. *Respondents were permitted to provide more than one response.*

- **Pay off bills that have accumulated: 56 percent**
- **Put into savings: 34 percent**

- **Make home improvements: 12 percent**
- **Go on vacation: 11 percent**
- **Pay back money owed to other people: 8 percent**
- **Invest it: 7 percent**
- **Buy a car: 2 percent**

Source: Lorenz, Kate, "Tax Time Dilemmas for Workers and Job Seekers," Current Affairs, The Work Buzz, April 2010, <http://www.theworkbuzz.com/current-affairs/tax-time-dilemmas-for-workers-and-job-seekers/>.