

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 are nice ideas but...

Follow These Strategies:

Plan ahead before spending your refund. Without a plan, you may use the money on the first thing that comes to mind and later realize something else was more important. Planning ahead and involving the family increases the chances that you will identify all the possibilities and identify which are most important.

Devote a portion of your tax refund to build long-term financial security. Under the 2008 Farm Bill, savings for certain retirement and education savings plans will no longer be counted in determining food stamp eligibility. Money put into retirement savings may also make you eligible for the Savers Credit (formerly known as Retirement Savings Contributions Credit).

You may be eligible for the Savers Credit with a filing status and income of:

- Single, married filing separately, or qualifying widow(er) with income up to \$27,750.
- Head of Household, with income up to \$41,625.
- Married Filing Jointly, with income up to \$55,500.

Do not throw away part of your refund on loan fees. Companies that offer “quick refunds” are just giving you a high-cost, high-risk loan. (For more information on refund anticipation loans, see <http://www.lawhelpmn.org/MN/index.cfm>.)

Four Smart Uses for Your Tax Refund

1. Pay off bills.

Your first priority should be monthly bills for needs (utilities, phone, etc.) you have gotten behind on. Prioritize your other debts so that the ones with the highest interest rate get paid off first.

2. Save for needs in the coming year.

Emergency Funds – Having money saved for emergencies can get you through small emergencies like a car repair or medical expense. If you lose your job, an emergency fund can keep you afloat until you find another income source.



Occasional Expenses – Big bills that come once a year or every few months cause huge problems for families. Avoid problems by being ready for the bills! Use your tax refund to start a special savings fund and then keep adding to it throughout the year.

Use direct deposit to receive tax refunds fast. You can split direct deposit refunds in up to three different accounts. These could be joint checking, savings, health savings, retirement, or education savings accounts. More information is available online at www.irs.gov; search for Form 8888.

3. Save for long-term goals.

You can make progress toward long-term goals using your tax refund! Small amounts add up. Adding just \$500 a year into a retirement account such as an IRA can make a difference over a period of decades. Take the ‘small amount’ plan one step further by making a monthly contribution too. If you contribute \$500/year and \$25/month, earning 9% return, in 30 years you will have \$113,800!

4. Save for special purchases.

Do you need a new refrigerator? Or furnace? Or...? Those purchases are valuable too. Some may be essential, while others simply add enjoyment to life.



Plan for the best use of your tax refund! Use Steps for Decision Making (Dollar Works 2 Action Page 2-2, located on page 4 of this document) to make the best decision for the use of your tax refund. By you and your family carefully considering all of the options and the pros and cons of each option, you will be able to make the best decision for how to use the dollars.

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Additional Sources: 2011 EIC and Child Tax Credit Outreach Kit (available at www.cbpp.org); Six Facts on How to Get Credit for Retirement Savings Contributions, IRS Tax Tip, 2010-36 (www.irs.gov). For more information on Dollar Works 2: A Personal Financial Education Program, visit www.extension.umn.edu/dollarworks.

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Steps for Decision Making: Tax Case Study



Here is a sample tax issue using the five-step model for decision making:

Sue and John have filed their tax return and find that they will receive \$3,120 in tax refunds. They have an overdue gas bill of \$275 and a credit card with a balance of \$645 (23.9% interest rate). They pay car insurance month-by-month and are often late (incurring late fees). The family would like a flat screen TV; they also want a computer as they do not currently have one. They have not had a vacation with their two kids in four years. Neither Sue nor John have any retirement savings nor money saved for emergencies.

1. What is the money issue or decision you need to make?

Decide how to use the tax refund.

2. What possible options or choices do you have for your money issue or decision?

- A. Buy a flat screen TV and/or computer.
- B. Pay overdue gas bill and credit card balances.
- C. Pay ahead on car insurance.
- D. Set aside money for emergencies.
- E. Set aside money for vacation.

3. What are the pros and cons for each of the options?

Pros:

- A. TV would be HD ready; kids need a computer for school
- B. Gas company would stop calling about late bill; less stress
- C. Peace of mind, no late fees
- D. Less on charge card, less interest
- E. Family fun

Cons:

- Already have 2 TVs and converter boxes
- Less money to use elsewhere
- Less money to use elsewhere
- Less money to use elsewhere
- Better to put it into retirement?

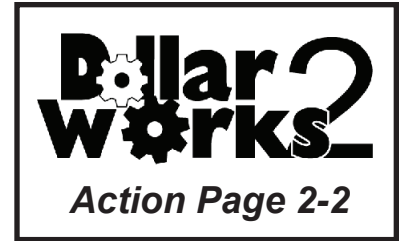
4. Your decision is . . .

Pay off the gas and credit card bill (\$920); start an emergency savings (\$800); buy a computer (\$500); pre-pay 3 months of car insurance (\$400); and put aside money for vacation (\$500).

5. When will you look at this decision again?

Next tax season – I will see how this allocation worked for my family.

Steps for Decision Making



You can learn how to make choices or decisions with your money by using these five steps to a good decision. You can apply this process to any decision about money. Choose a money decision you want to make and then answer the questions that follow.

1. What is the money issue or decision you need to make?

2. What possible options or choices do you have for your money issue or decision? Rank your choices, listing the most important first.

A. _____

B. _____

C. _____

D. _____

E. _____

3. What are the pros and cons for each of the options?

Pros:

Cons:

A. _____

B. _____

C. _____

D. _____

E. _____

4. Your decision is . . .

5. When will you look at this decision again?
