

6 Wise Ways to Use Your Tax Refund

When your tax refund arrives from Uncle Sam, it can be tempting to spend it immediately. But there are ways that you can use your refund to your advantage.



1. Build Your Emergency Fund

If your emergency fund is low, consider using your tax refund to beef it up. Most experts recommend having at least three to six months of expenses saved.¹ But over half of Americans have less than three months in emergency savings, while a quarter doesn't have an emergency fund at all.² A normal savings account can suffice for keeping your emergency savings safe, but a certificate of deposit (CD) can also be a good option if you're searching for a higher interest rate savings vehicle and don't need the money prior to the CD's maturity date.



2. Contribute to Retirement

Putting your tax refund into an individual retirement fund is a good way to build for your future. Consider contributing to either a Roth or Traditional individual retirement account (IRA).

For a traditional IRA, your contributions are deducted from your income and then taxed when the money is withdrawn. While a Roth IRA doesn't allow you to deduct contributions from your income, you can withdraw the funds tax-free. Check the income phase-outs to make sure you qualify.

This supplement to your normal retirement savings may come in handy. Most experts recommend having ten times your salary saved for retirement by age 67.³



3. Pay Down Credit Card Debt

If you have debt, it may be wise to pay it down with some help from your tax refund—especially if you have credit card debt. Credit cards usually have high interest rates and can keep you in debt for years if you're only making the minimum payment. Unlike other types of debt, such as a mortgage or student loan debt, credit card debt is considered "bad debt" because it isn't used to pay for appreciating assets.



4. Invest in Education

Putting extra funds toward education—whether you’re saving for your child or your own—is always a good use of extra cash because it’s an investment in human capital. Education has been shown to improve salary potential, social mobility, sense of fulfillment, and even health.⁴ If your return goes into a college savings vehicle, you may be able to reap some tax benefits as well.



5. Increase Your Home Value

If you have adequate emergency and retirement savings and aren’t carrying any credit card debt, use your tax refund to invest in your home. Consider funding a renovation project that will increase the value of your home. If you don’t plan on selling any time soon, focus on changes that improve your family’s overall quality of life.



6. Give to Charity

Putting your tax refund behind a cause that’s close to your heart is emotionally rewarding. It also comes with the added possibility of tax benefits, depending on how you choose to give. Keep your giving receipt if you plan to itemize next year.

Planning Ahead Is Key

Have questions about your tax refund?
Talk to a financial professional.

Sources

1. “Preparing for Emergencies.” Fidelity, October 30, 2021. www.fidelity.com/viewpoints.
2. Foster, Sarah. “Survey: More than Half of Americans Couldn’t Cover Three Months of Expenses with an Emergency Fund.” Bankrate, July 21, 2021. www.bankrate.com.
3. “How Much Do I Need To Retire?” Fidelity, August 27, 2021. www.fidelity.com/viewpoints.
4. Lee, Robert. “Learning Matters: How Education Affects Health.” American Academy of Family Physicians. www.aafp.org.