

Six Smart Ways to Spend Your Tax Refund

Hit the gas, or hit the brakes?

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In 2017, American taxpayers received nearly 112 million refunds, with the average refund in 2016 topping \$2,895. Should you save it or spend it?

Here are some ideas on how to spend that refund:

1. Pay down credit card balances

Reduce your debt and save future interest payments. Two popular debt reduction strategies are “Debt Snowball” or “Debt Avalanche”.

Debt Snowball is when you aggressively pay off the credit card with the lowest balance first, then add that monthly payment to your payment on the *next* lowest card balance. The reward is seeing your debts eliminated, instead of just “reduced”, and it can be motivating to eliminate a financial obligation completely from your “I owe” list.

Debt Avalanche is a strategy to aggressively pay off the credit card with the highest balance due, then work to pay off the card with the *next* highest balance, etc. While this makes sense strictly from a “numbers” point of view, it will take much longer to pay the balance, and you could lose your motivation.

2. Invest in a comfy retirement

Most employees are *not* saving enough for their retirement. Catch up with an annual deposit into your investment portfolio, and reap the rewards of tax-deferred investing.

3. Build your “Emergency Fund”

Most Americans do not have a rainy-day fund for emergencies. An unplanned house/car repair, illness, natural catastrophe or loss of a job is easier to bear when there is a savings “cushion”.

Consider establishing an Emergency Fund of *at least* \$1,000, then build it up gradually until you have saved an equivalent of six months of wages.

4. Keep it “in house”

If you own a house, consider making an extra mortgage principal payment to pay off your house earlier. There are many online websites offering ideas to pay off your mortgage earlier to save the extra interest you would otherwise have to pay.

5. Give it away

Donating all or part of your refund to charity can be a smart financial move, because you are reducing your tax bill in addition to helping a good cause.

6. Save it *and* spend it

Commit 90% of your refund to a “responsible choice”, then use the remaining 10% to get that new gadget, weekend getaway or fancy dinner.

For more financial tips on reducing expenses or saving more, please visit the Louisiana Office of Financial Institutions’ website at www.ofi.la.gov/SecuritiesInvestorEd.htm in the FINANCIAL WELLNESS section.