

Make wise choices when you get tax refund

We're eagerly awaiting our tax refund, but we disagree on what to do with it. We do agree that we want to be smarter about our saving and spending habits. Are there good guidelines we can follow?

You're already on a smart path — you're actually thinking about what might be best instead of unthinkingly going on a spending spree once the refund arrives. So, give yourselves a pat on the back.

Now, think about potential uses for that money in three general categories: paying off debts, saving and spending. Only you know your financial situation and can determine how to put that money to best use, but here are a few guidelines for making smart decisions on putting your tax refund to work, culled from fact sheets by family finance Extension experts at land-grant universities across the country:

- **Paying off debt.** If you have credit card debt, if you're behind on utility or other monthly payments, or even if you have a car loan, using your tax refund to pay off that debt would be a good idea. The first priority should be to get caught up on any bills you're behind on. After that, take a look at the interest rate you're paying on credit cards and other debt, and pay off — or at least pay down — whatever has the highest rate.

- **Savings.** Everyone should have two comfortable nest eggs — one for the coming year and the other for the long-term. For the coming year, experts suggest building an emergency fund of two to six months' worth



of regular expenses to carry you through in case you lose your job or need to take an extended period off due to health problems, and to have on hand for an emergency car repair or if a major appliance breaks down. In addition, take a look at last year's periodic expenses — Christmas spending, for example, or property taxes — and set money aside now to cover those expenses later this year.

In addition, take a look at your long-term savings — savings for buying a house, for your children's education, for your dream vacation or for retirement. This could be a good opportunity for taking a leap forward on attaining those goals.

- **Spending.** This is where many people start when they imagine what they'll do with a tax refund, and it's certainly a viable option. When making a decision like this, it might be wise to direct purchases that would increase enjoyment of your day-to-day life rather than on items whose value might be fleeting.

Of course, depending on the size of your refund and your own financial situation, it may be possible to put some money toward each of these areas. If your refund is quite large, though, you might want to consider changing your withholding rate by submitting a new W-4 form to your employer. Reducing the amount of tax withheld in your paycheck will reduce next year's refund, but you'll enjoy a bigger paycheck through the rest of the year.

Family Fundamentals is a monthly column on family issues. It is a service of Ohio State University Extension and the Ohio Agricultural Research and Development Center. Send questions to Family Fundamentals, c/o Martha Filipic, 2021 Coffey Road, Columbus, OH 43210-1044, or f Filipic.3@osu.edu.



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Dear Subscriber: This column was reviewed by Joyce Fittro, family and consumer sciences educator for Ohio State University Extension.

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