

Smart Ways to Spend Your Tax Refund

Many people filed their taxes early this year, so a lot of U.S. consumers have already received their 2012 refunds. The average refund is about \$3,000, and that extra cash can burn a hole in your wallet. Here are some ways consumers can spend those extra funds wisely (hint: an 80-inch HDTV isn't on the list).

Create or expand your emergency fund.

According to a recent survey, about 34 percent of Americans do not have an emergency fund. As a result, they have no way to pay for unexpected expenses. An adequate emergency fund should consist of at least three months' worth of all fixed expenses, like mortgage/rent, utilities, food, etc. Use your refund windfall to bolster an existing emergency fund or open an interest-bearing savings account to create a new one.

Pay off some debt.

If your current debt payments (other than your mortgage) take up more than 20 percent of your monthly income, it's a good opportunity to use your refund to make a significant dent in your debt by making payments to the highest-interest balance first, typically credit card debt. It's also an opportunity to make headway on student loans or lingering medical bills.

Save for retirement.

Pay yourself first by putting your refund towards your retirement. If you're not already maxing out a 401(k) that includes an employer match, you're leaving free money on the table. If your employer doesn't offer a retirement plan or you're already contributing, consider opening an IRA account to bolster your retirement savings.

Check items off your financial "someday" list.

Everyone has a "someday" list. You know, "someday I'll start a college fund for my children," "someday I'll hire a lawyer to write my will," "someday I'll buy a safe for my home," etc. Getting a large tax refund is a perfect opportunity to check some of these items off the list without impacting your usual cash flow.

Whatever investment you choose to make with your tax refund, be sure that it will provide you value in the long-term. While it's tempting to use that extra cash to purchase entertainment systems or go on a vacation, a more patient approach will give you more satisfaction in the long-run.



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