

Productive Ways To Use Your Tax Refund

I want to talk about ways to use your tax refund. You may have heard that tax returns were not as large as they had been in the past, but the story is evolving. In fact, the data from [IRS.gov released for the week ending Feb. 22, 2019](https://www.irs.gov/irb/2019-02-22), showed that the average tax refund is \$3,143. That's slightly higher than the average refund filed by roughly the same time in 2018 which was \$3,013. \$3,000 is a healthy chunk of change. It's likely that you have some ideas on how to spend that money; perhaps a new item for the home or an escape to an exotic destination. However, today I'm going to talk about a March 2019 Motley Fool article entitled, "[The 4 Best Ways to Use Your Tax Refund](#)." The article focuses on financially beneficial ways to use your tax refund to set yourself up for future financial security.

The first way that is mentioned in the article is ... create or add to an emergency fund. You've heard it before — everyone should have an emergency fund. Yet, most individuals do not have enough funds in their savings accounts in case of an emergency. GoBankingRates.com has surveyed Americans about how much money they have in their savings accounts. Each year since 2015, the survey results have shown that a majority of adults don't even have \$1,000 in a savings account. That trend continues in 2018. Emergency savings can help in the event of a major medical issue, household repairs, car repairs or avoiding additional debt.

In fact, the second way mentioned in the article deals with debt as well. The suggestion is to use your tax refund to pay down debt. You could use the tax refund to pay down a car loan or credit card, avoiding future interest. Avoiding interest charges will help you save even more money in the long run. It's a great way to improve your financial situation.

The third way to utilize your tax refund to improve your financial situation is to increase your retirement savings. This may be through a lump sum contribution to your 401(k) or Individual Retirement Account. This can also improve your future tax situation, as any contribution to a traditional IRA or 401(k) will reduce your taxable earnings as well. The largest benefit of using your tax refund to increase your retirement savings comes from compound interest. According to the Motley Fool article, investing a tax refund of \$2,500 today would be worth over \$19,000 in 30 years, assuming a 7 percent annual rate of return! Even if you don't have 30 years before retirement, every cent of additional savings will have a long-term impact.

The final way to use your tax refund is to consider investing in a taxable brokerage account. This is a good option, especially if you have already maxed out your allowed retirement savings account contributions. These funds would potentially be available for withdrawal before age 59 and a half. It is important to remember that you will be taxed on any capital gains you realize through your brokerage account. Be sure to consult your tax professional or a financial services professional to answer any questions about tax or capital gains implications.

These are four ways that you can use your tax refund to change your financial situation. You could even split your refund between several of these options. A tax refund can be an opportunity that you may want to take advantage of to change your financial picture.

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