Tax season is here. If you are one of the lucky ones who are receiving a tax refund, now is your chance to make that money benefit your long term financial fitness.

Here in Alaska, there are two times a year when many get a large influx of cash money: tax time and Permanent Fund Dividend time. The same advice that works now will work when the dividend comes.

Here are six things to do with your tax refund:

Make a down payment. If you need a new refrigerator, new car, or any large purchase, this money can buy something outright, or make a down payment on that purchase. Getting any of these new items requires a substantial down payment. Use this money to start the process.

Pay down debt. A new television or computer might feel better for the moment, but real gains are made by paying that refund on last year’s purchases that you have racked up on your credit card. By paying down debt, you are essentially gaining the interest you would have paid on the debt. Think of it as a $1000 payment that gains you 10-29%, because you won’t be paying that interest.

Save it. Your tax refund might be an excellent starting point for building an emergency fund. People hit the credit cards when they have an emergency and they don’t have the money to pay for it. Having an emergency fund will keep you from adding to your credit card debt when those car repairs, house repairs, and medical bills strike. To guard against this and other situations, it is essential to have a financial buffer, so use that tax refund to get it started.
Pay your mortgage (or car payment) ahead. There are two different ways to look at this one. Just paying one payment ahead allows you to not fret about the deadline on your bill. So your payment is a day late? No problem, because you have one payment ahead. The other way to look at this situation that is particularly fiscally effective is to pay one payment on the principle of your mortgage. In the early years of a home loan, one extra payment each year may just reduce a 30-year note to a 25-year note. If you do that several times, you are paying for that house in record time.

Start on your Christmas (or birthday) list. Christmas comes at the same time each year, so why are we always unprepared? The sudden spending for gifts causes many to reach for their credit cards. Stick the money in a savings account or troll the sale racks and start looking for those special gifts for Christmas or someone’s birthday.

Have some fun. Sometimes the money comes at a time that we just need a lift. It has been a long winter and you might want to take the family on a trip, have a day at Chena Hot Springs, or treat them to a new television. There’s nothing wrong with having a bit of fun, but make sure you have made a purposeful decision, not just frittered the money away on things that have no lasting value. Remember that creating family memories through a shared trip or event does having lasting value in building relationships.

Being smart with your tax refund will strengthen your financial position now and in the future. After all, a tax refund is not a gift from the government that you must spend on a new television, but the return of a small portion of your hard-earned money that the government has been using interest free.

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